

UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549  
FORM 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 or 15(d)  
OF THE SECURITIES EXCHANGE ACT OF 1934

FOR THE QUARTERLY PERIOD ENDED:  
**MARCH 31, 2009**

Commission file number:  
**1-15731**

EVEREST RE GROUP, LTD.

(Exact name of registrant as specified in its charter)

Bermuda

(State or other jurisdiction of  
incorporation or organization)

98-0365432

(I.R.S. Employer  
Identification No.)

**Wessex House – 2<sup>nd</sup> Floor  
45 Reid Street  
PO Box HM 845  
Hamilton HM DX, Bermuda  
441-295-0006**

(Address, including zip code, and telephone number, including area code,  
of registrant's principal executive office)

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

YES  NO

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or shorter period that the registrant was required to submit and post such files).

YES  NO

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer  Accelerated filer   
Non-accelerated filer  Smaller reporting company   
(Do not check if smaller reporting company)

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

YES  NO

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

Class  
Common Shares, \$0.01 par value

Number of Shares Outstanding  
At May 1, 2009  
61,542,089

**EVEREST RE GROUP, LTD**

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**PART I**

**ITEM 1. FINANCIAL STATEMENTS**

EVEREST RE GROUP, LTD.  
CONSOLIDATED BALANCE SHEETS

|   | March 31,<br>2009    | December 31,<br>2008 |
|---|----------------------|----------------------|
|   | (unaudited)          |                      |
| (Dollars in thousands, except par value per share)  |                      |                      |
| <b>ASSETS:</b>  |                      |                      |
| Fixed maturities - available for sale, at market value<br>(amortized cost: 2009, \$11,294,284; 2008, \$10,932,076)              | \$ 11,195,981        | \$ 10,759,612        |
| Fixed maturities - available for sale, at fair value  | 47,391               | 43,090               |
| Equity securities - available for sale, at market value (cost: 2009, \$12,618; 2008, \$14,915)                                  | 14,358               | 16,900               |
| Equity securities - available for sale, at fair value   | 109,788              | 119,829              |
| Short-term investments  | 1,173,056            | 1,889,799            |
| Other invested assets (cost: 2009, \$602,812; 2008, \$687,265)  | 593,261              | 679,356              |
| Cash  | 467,248              | 205,694              |
| Total investments and cash  | 13,601,083           | 13,714,280           |
| Accrued investment income   | 135,718              | 149,215              |
| Premiums receivable   | 917,272              | 908,110              |
| Reinsurance receivables   | 672,099              | 657,169              |
| Funds held by reinsureds  | 337,076              | 331,817              |
| Deferred acquisition costs  | 354,545              | 354,992              |
| Prepaid reinsurance premiums  | 74,052               | 79,379               |
| Deferred tax asset  | 380,773              | 442,367              |
| Federal income taxes recoverable  | 82,221               | 32,295               |
| Other assets  | 170,155              | 176,966              |
| <b>TOTAL ASSETS</b>   | <b>\$ 16,724,994</b> | <b>\$ 16,846,590</b> |
| <b>LIABILITIES:</b>   |                      |                      |
| Reserve for losses and loss adjustment expenses   | \$ 8,775,462         | \$ 8,840,660         |
| Future policy benefit reserve   | 69,334               | 66,172               |
| Unearned premium reserve  | 1,362,514            | 1,335,511            |
| Funds held under reinsurance treaties   | 85,087               | 83,431               |
| Losses in the course of payment   | 40,864               | 45,654               |
| Commission reserves   | 49,502               | 52,460               |
| Other net payable to reinsurers   | 49,644               | 51,138               |
| 8.75% Senior notes due 3/15/2010  | 199,857              | 199,821              |
| 5.4% Senior notes due 10/15/2014  | 249,738              | 249,728              |
| 6.6% Long term notes due 5/1/2067   | 238,346              | 399,643              |
| Junior subordinated debt securities payable   | 329,897              | 329,897              |
| Accrued interest on debt and borrowings   | 12,821               | 11,217               |
| Other liabilities   | 222,074              | 220,903              |
| Total liabilities   | 11,685,140           | 11,886,235           |
| Commitments and contingencies (Note 8)  |                      |                      |
| <b>SHAREHOLDERS' EQUITY:</b>  |                      |                      |
| Preferred shares, par value: \$0.01; 50 million shares authorized;<br>no shares issued and outstanding                          | -                    | -                    |
| Common shares, par value: \$0.01; 200 million shares authorized; (2009) 65.7 million and<br>(2008) 65.6 million issued          | 657                  | 656                  |
| Additional paid-in capital  | 1,827,819            | 1,824,552            |
| Accumulated other comprehensive loss, net of deferred income tax benefit<br>of \$1.3 million at 2009 and \$16.5 million at 2008 | (294,636)            | (291,851)            |
| Treasury shares, at cost; (2009 and 2008) 4.2 million shares  | (392,329)            | (392,329)            |
| Retained earnings   | 3,898,343            | 3,819,327            |
| Total shareholders' equity  | 5,039,854            | 4,960,355            |
| <b>TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY</b>   | <b>\$ 16,724,994</b> | <b>\$ 16,846,590</b> |

The accompanying notes are an integral part of the consolidated financial statements.

EVEREST RE GROUP, LTD.  
CONSOLIDATED STATEMENTS OF OPERATIONS  
AND COMPREHENSIVE INCOME

|   | Three Months Ended |                  |
|---|--------------------|------------------|
|   | March 31,          |                  |
|   | 2009               | 2008             |
|   | (unaudited)        |                  |
| (Dollars in thousands, except per share amounts)        |                    |                  |
| <b>REVENUES:</b>  |                    |                  |
| Premiums earned   | \$ 932,290         | \$ 911,973       |
| Net investment income                                   | 68,754             | 150,132          |
| Net realized capital losses                             | (65,137)           | (136,383)        |
| Realized gain on debt repurchase                        | 78,271             | -                |
| Net derivative loss                                     | (19,703)           | (3,795)          |
| Other expense   | (5,180)            | (5,161)          |
| Total revenues  | <u>989,295</u>     | <u>916,766</u>   |
| <b>CLAIMS AND EXPENSES:</b>                             |                    |                  |
| Incurred losses and loss adjustment expenses            | 569,905            | 545,350          |
| Commission, brokerage, taxes and fees                   | 226,038            | 227,147          |
| Other underwriting expenses                             | 40,135             | 40,244           |
| Interest, fees and bond issue cost amortization expense | 20,142             | 19,787           |
| Total claims and expenses                               | <u>856,220</u>     | <u>832,528</u>   |
| <b>INCOME BEFORE TAXES</b>                              | 133,075            | 84,238           |
| Income tax expense                                      | <u>24,519</u>      | <u>6,305</u>     |
| <b>NET INCOME</b>                                       | <u>\$ 108,556</u>  | <u>\$ 77,933</u> |
| Other comprehensive loss, net of tax                    | <u>(2,785)</u>     | <u>(3,991)</u>   |
| <b>COMPREHENSIVE INCOME</b>                             | <u>\$ 105,771</u>  | <u>\$ 73,942</u> |
| <b>PER SHARE DATA:</b>                                  |                    |                  |
| Average shares outstanding (000's)                      | 61,294             | 62,377           |
| Net income per common share - basic                     | <u>\$ 1.77</u>     | <u>\$ 1.25</u>   |
| Average diluted shares outstanding (000's)              | 61,433             | 62,860           |
| Net income per common share - diluted                   | <u>\$ 1.77</u>     | <u>\$ 1.24</u>   |

The accompanying notes are an integral part of the consolidated financial statements.

EVEREST RE GROUP, LTD.  
CONSOLIDATED STATEMENTS OF  
CHANGES IN SHAREHOLDERS' EQUITY

|   | Three Months Ended  |                     |
|---|---------------------|---------------------|
|   | March 31,           |                     |
|   | 2009                | 2008                |
|   | (unaudited)         |                     |
| (Dollars in thousands, except share amounts)                                    |                     |                     |
| COMMON SHARES (shares outstanding):   |                     |                     |
| Balance, beginning of period  | 61,414,027          | 62,863,845          |
| Issued during the period, net   | 128,062             | 83,743              |
| Treasury shares acquired  | -                   | (1,052,000)         |
| Balance, end of period  | <u>61,542,089</u>   | <u>61,895,588</u>   |
| COMMON SHARES (par value):  |                     |                     |
| Balance, beginning of period  | \$ 656              | \$ 654              |
| Issued during the period, net   | <u>1</u>            | <u>1</u>            |
| Balance, end of period  | <u>657</u>          | <u>655</u>          |
| ADDITIONAL PAID-IN CAPITAL:   |                     |                     |
| Balance, beginning of period  | 1,824,552           | 1,805,844           |
| Share-based compensation plans  | 3,230               | 5,046               |
| Other   | <u>37</u>           | <u>56</u>           |
| Balance, end of period  | <u>1,827,819</u>    | <u>1,810,946</u>    |
| ACCUMULATED OTHER COMPREHENSIVE (LOSS) INCOME,<br>NET OF DEFERRED INCOME TAXES: |                     |                     |
| Balance, beginning of period  | (291,851)           | 163,155             |
| Net decrease during the period  | <u>(2,785)</u>      | <u>(3,991)</u>      |
| Balance, end of period  | <u>(294,636)</u>    | <u>159,164</u>      |
| RETAINED EARNINGS:  |                     |                     |
| Balance, beginning of period  | 3,819,327           | 3,956,701           |
| Net income  | 108,556             | 77,933              |
| Dividends declared (\$0.48 per share in 2009 and 2008)                          | <u>(29,540)</u>     | <u>(29,994)</u>     |
| Balance, end of period  | <u>3,898,343</u>    | <u>4,004,640</u>    |
| TREASURY SHARES AT COST:  |                     |                     |
| Balance, beginning of period  | (392,329)           | (241,584)           |
| Purchase of treasury shares   | <u>-</u>            | <u>(100,837)</u>    |
| Balance, end of period  | <u>(392,329)</u>    | <u>(342,421)</u>    |
| TOTAL SHAREHOLDERS' EQUITY, END OF PERIOD                                       | <u>\$ 5,039,854</u> | <u>\$ 5,632,984</u> |

The accompanying notes are an integral part of the consolidated financial statements.

EVEREST RE GROUP, LTD.  
CONSOLIDATED STATEMENTS OF CASH FLOWS

|   | Three Months Ended<br>March 31, |                   |
|---|---------------------------------|-------------------|
|   | 2009                            | 2008              |
|   | (unaudited)                     |                   |
| (Dollars in thousands)  |                                 |                   |
| <b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>  |                                 |                   |
| Net income  | \$ 108,556                      | \$ 77,933         |
| Adjustments to reconcile net income to net cash provided by operating activities:   |                                 |                   |
| (Increase) decrease in premiums receivable  | (14,479)                        | 31,737            |
| Increase in funds held by reinsureds, net   | (9,781)                         | (8,737)           |
| (Increase) decrease in reinsurance receivables                                      | (32,137)                        | 37,776            |
| Decrease (increase) in deferred tax asset   | 44,990                          | (56,130)          |
| Increase in reserve for losses and loss adjustment expenses                         | 2,434                           | 50,050            |
| Increase (decrease) in future policy benefit reserve                                | 3,161                           | (3,012)           |
| Increase (decrease) in unearned premiums  | 32,852                          | (72,961)          |
| Change in equity adjustments in limited partnerships                                | 73,285                          | 8,606             |
| Change in other assets and liabilities, net   | (20,913)                        | 40,832            |
| Non-cash compensation expense   | 3,136                           | 7,679             |
| Amortization of bond premium/(accrual of bond discount)                             | 2,490                           | 453               |
| Amortization of underwriting discount on senior notes                               | 46                              | 43                |
| Realized gain on debt repurchase  | (78,271)                        | -                 |
| Net realized capital losses   | 65,137                          | 136,383           |
| Net cash provided by operating activities   | <u>180,506</u>                  | <u>250,652</u>    |
| <b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>  |                                 |                   |
| Proceeds from fixed maturities matured/called - available for sale, at market value | 242,130                         | 288,927           |
| Proceeds from fixed maturities matured/called - available for sale, at fair value   | 5,570                           | -                 |
| Proceeds from fixed maturities sold - available for sale, at market value           | 80,957                          | 47,210            |
| Proceeds from fixed maturities sold - available for sale, at fair value             | 3,492                           | -                 |
| Proceeds from equity securities sold - available for sale, at market value          | 1,042                           | -                 |
| Proceeds from equity securities sold - available for sale, at fair value            | 1,648                           | 262,298           |
| Distributions from other invested assets  | 12,664                          | 11,185            |
| Cost of fixed maturities acquired - available for sale, at market value             | (812,380)                       | (686,577)         |
| Cost of fixed maturities acquired - available for sale, at fair value               | (13,309)                        | -                 |
| Cost of equity securities acquired - available for sale, at market value            | -                               | (440)             |
| Cost of equity securities acquired - available for sale, at fair value              | (8,979)                         | (78,525)          |
| Cost of other invested assets acquired  | (6,239)                         | (24,051)          |
| Net change in short-term securities   | 712,922                         | (42,136)          |
| Net change in unsettled securities transactions                                     | 3,699                           | 68,491            |
| Net cash provided by (used in) investing activities                                 | <u>223,217</u>                  | <u>(153,618)</u>  |
| <b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>  |                                 |                   |
| Common shares issued during the period, net   | 132                             | (2,576)           |
| Purchase of treasury shares   | -                               | (100,837)         |
| Net cost of debt repurchase   | (83,026)                        | -                 |
| Dividends paid to shareholders  | (29,540)                        | (29,994)          |
| Net cash used in financing activities   | <u>(112,434)</u>                | <u>(133,407)</u>  |
| <b>EFFECT OF EXCHANGE RATE CHANGES ON CASH</b>                                      | <u>(29,735)</u>                 | <u>3,777</u>      |
| Net increase (decrease) in cash   | 261,554                         | (32,596)          |
| Cash, beginning of period   | 205,694                         | 250,567           |
| Cash, end of period   | <u>\$ 467,248</u>               | <u>\$ 217,971</u> |
| <b>SUPPLEMENTAL CASH FLOW INFORMATION</b>   |                                 |                   |
| Cash transactions:  |                                 |                   |
| Income taxes paid   | \$ 27,135                       | \$ 33,218         |
| Interest paid   | \$ 18,318                       | \$ 13,931         |

The accompanying notes are an integral part of the consolidated financial statements.

## NOTES TO CONSOLIDATED INTERIM FINANCIAL STATEMENTS (UNAUDITED)

For the Three Months Ended March 31, 2009 and 2008

### 1. General

Everest Re Group, Ltd. ("Group"), a Bermuda company, through its subsidiaries, principally provides reinsurance and insurance in the U.S., Bermuda and international markets. As used in this document, "Company" means Group and its subsidiaries. On December 30, 2008, Group contributed Everest Reinsurance Holdings, Inc. and its subsidiaries to its recently established Irish holding company, Everest Reinsurance Company (Ireland), Limited.

The unaudited consolidated financial statements of the Company for the three months ended March 31, 2009 and 2008 include all adjustments, consisting of normal recurring accruals, which, in the opinion of management, are necessary for a fair statement of the results on an interim basis. Certain financial information, which is normally included in annual financial statements prepared in accordance with accounting principles generally accepted in the United States of America ("GAAP"), has been omitted since it is not required for interim reporting purposes. The year end consolidated balance sheet data was derived from audited financial statements, but does not include all disclosures required by GAAP. The results for the three months ended March 31, 2009 and 2008 are not necessarily indicative of the results for a full year. These financial statements should be read in conjunction with the audited consolidated financial statements and notes thereto for the years ended December 31, 2008, 2007 and 2006 included in the Company's most recent Form 10-K filing.

### 2. New Accounting Pronouncements

In March 2008, the Financial Accounting Standards Board ("FASB") issued Financial Accounting Standards ("FAS") No. 161 "Disclosures about Derivative Instruments and Hedging Activities - an amendment of FASB Statement No. 133" ("FAS 161"). FAS 161 requires entities to provide additional disclosures on derivative and hedging activities regarding their effect on financial position, financial performance and cash flows. This statement is effective for financial statements issued for fiscal years and interim periods beginning after November 15, 2008. The Company adopted FAS 161 on January 1, 2009.

In June, 2008, the FASB issued FASB Staff Position ("FSP") Emerging Issues Task Force ("EITF") 03-6-1 "Determining Whether Instruments Granted in Share-Based Payment Transactions Are Participating Securities" ("FSP EITF 03-6-1"). FSP EITF 03-6-1 requires unvested restricted stock awards that contain rights to nonforfeitable dividends to be considered in the determination of earnings per share. Upon adoption, the presented earnings per share number was not impacted.

In December 2008, the FASB issued FASB Staff Position FAS 132(R)-1 "Employers' Disclosures about Postretirement Benefit Plan Assets" ("FAS 132(R)-1"). FAS 132(R)-1 requires additional disclosures about plan assets. Additional disclosures include investment policies and strategies, fair value of each major plan asset category, inputs and valuation techniques used to develop fair value and any significant concentrations of risk. This FASB Staff Position is effective for fiscal years ending after December 15, 2009. The Company will adopt FAS 132(R)-1 for the reporting period ending December 31, 2009.

On April 9, 2009, the FASB issued FSP No. FAS 157-4 "Determining Fair Value When the Volume and Level of Activity for the Asset or Liability Have Significantly Decreased and Identifying Transactions That Are Not Orderly" ("FSP FAS 157-4"). FSP FAS 157-4 provides additional guidance for estimating fair value in accordance with FAS 157 when the volume and level of activity for the asset or liability have significantly

decreased and to identify circumstances that indicate a transaction is not orderly. In addition, FSP FAS 157-4 emphasizes that the objective of the fair value measurement remains the same, to arrive at a price received to sell an asset or paid to transfer a liability in an orderly transaction. This FSP is effective for interim and annual reporting periods ending after June 15, 2009, and is applied prospectively. The Company will adopt this FSP effective April 1, 2009 in conjunction with the second quarter reporting period. The Company does not believe that adopting this FSP will have a material impact on the Company's financial results.

On April 9, 2009, the FASB issued FSP No. FAS 115-2 and FAS 124-2 "Recognition and Presentation of Other-Than-Temporary Impairments" ("FSP FAS 115-2 and FAS 124-2"). FSP FAS 115-2 and FAS 124-2 amends the other-than-temporary guidance in U.S. GAAP for debt securities to make the guidance more operational and to improve the presentation and disclosure of other-than-temporary impairments on debt and equity securities in the financial statements. This FSP is effective for interim and annual reporting periods ending after June 15, 2009, and is applied prospectively with an adjustment to reclassify the non-credit portion of any other-than-temporary payments previously recorded through earnings to accumulated other comprehensive income. The Company will adopt this FSP effective April 1, 2009 in conjunction with the second quarter reporting period. The Company has not completed its analysis of the impact on the financial statements upon adoption of this FSP.

On April 9, 2009, the FASB issued FSP FAS 107-1 and FSP APB 28-1 "Interim Disclosures about Fair Value of Financial Instruments" ("FSP FAS 107-1 and APB 28-1"). FSP FAS 107-1 and APB 28-1 amends FASB Statement No. 107 "Disclosures about Fair Value of Financial Instruments" and APB Opinion No. 28 "Interim Financial Reporting" to require complete disclosures in both the interim and annual financial reporting. This FSP is effective for interim and annual reporting periods ending after June 15, 2009, and is applied prospectively. The Company will adopt this FSP effective April 1, 2009 in conjunction with the second quarter reporting period. FSP FAS 107-1 and APB 28-1 is for disclosure only and has no financial statement impact.

### 3. Investments

The amortized cost, market value and gross unrealized appreciation and depreciation of available for sale, market value fixed maturity and equity security investments are as follows for the periods indicated:

|   | At March 31, 2009    |                            |                            |                      |
|---|----------------------|----------------------------|----------------------------|----------------------|
|   | Amortized<br>Cost    | Unrealized<br>Appreciation | Unrealized<br>Depreciation | Market<br>Value      |
| (Dollars in thousands)                                |                      |                            |                            |                      |
| Fixed maturities - available for sale                 |                      |                            |                            |                      |
| U.S. Treasury securities and obligations of           |                      |                            |                            |                      |
| U.S. government agencies and corporations             | \$ 341,571           | \$ 50,715                  | \$ (239)                   | \$ 392,047           |
| Obligations of U.S. states and political subdivisions | 3,805,261            | 136,841                    | (103,028)                  | 3,839,074            |
| Corporate securities                                  | 2,735,920            | 63,161                     | (228,736)                  | 2,570,345            |
| Mortgage-backed securities                            | 2,442,407            | 49,851                     | (148,578)                  | 2,343,680            |
| Foreign government securities                         | 1,039,531            | 102,632                    | (24,000)                   | 1,118,163            |
| Foreign corporate securities                          | 929,594              | 49,489                     | (46,411)                   | 932,672              |
| Total fixed maturities                                | <u>\$ 11,294,284</u> | <u>\$ 452,689</u>          | <u>\$ (550,992)</u>        | <u>\$ 11,195,981</u> |
| Equity securities                                     | <u>\$ 12,618</u>     | <u>\$ 1,746</u>            | <u>\$ (6)</u>              | <u>\$ 14,358</u>     |

|   | At December 31, 2008 |                            |                            |                      |
|---|----------------------|----------------------------|----------------------------|----------------------|
|   | Amortized<br>Cost    | Unrealized<br>Appreciation | Unrealized<br>Depreciation | Market<br>Value      |
| (Dollars in thousands)                                |                      |                            |                            |                      |
| Fixed maturities - available for sale                 |                      |                            |                            |                      |
| U.S. Treasury securities and obligations of           |                      |                            |                            |                      |
| U.S. government agencies and corporations             | \$ 354,195           | \$ 55,186                  | \$ (663)                   | \$ 408,718           |
| Obligations of U.S. states and political subdivisions | 3,846,754            | 113,885                    | (164,921)                  | 3,795,718            |
| Corporate securities                                  | 2,690,786            | 61,552                     | (227,692)                  | 2,524,646            |
| Mortgage-backed securities                            | 1,988,359            | 26,331                     | (136,298)                  | 1,878,392            |
| Foreign government securities                         | 1,087,731            | 117,973                    | (23,598)                   | 1,182,106            |
| Foreign corporate securities                          | 964,251              | 56,813                     | (51,032)                   | 970,032              |
| Total fixed maturities                                | <u>\$ 10,932,076</u> | <u>\$ 431,740</u>          | <u>\$ (604,204)</u>        | <u>\$ 10,759,612</u> |
| Equity securities                                     | <u>\$ 14,915</u>     | <u>\$ 1,985</u>            | <u>\$ -</u>                | <u>\$ 16,900</u>     |

The amortized cost and market value of fixed maturities are shown in the following table by contractual maturity. Mortgage-backed securities generally are more likely to be prepaid than other fixed maturities. As the stated maturity of such securities may not be indicative of actual maturities, the total for mortgage-backed securities is shown separately.

|  | At March 31, 2009    |                      |
|--|----------------------|----------------------|
|  | Amortized<br>Cost    | Market<br>Value      |
| (Dollars in thousands)                 |                      |                      |
| Fixed maturities - available for sale  |                      |                      |
| Due in one year or less                | \$ 601,244           | \$ 615,315           |
| Due after one year through five years  | 2,675,598            | 2,741,079            |
| Due after five years through ten years | 2,308,834            | 2,302,214            |
| Due after ten years                    | 3,266,201            | 3,193,693            |
| Mortgage-backed securities             | 2,442,407            | 2,343,680            |
| Total                                  | <u>\$ 11,294,284</u> | <u>\$ 11,195,981</u> |

The changes in net unrealized appreciation (depreciation) for the Company's investments are derived from the following sources for the periods indicated:

|   | Three Months Ended |                    |
|---|--------------------|--------------------|
|   | March 31,          |                    |
|   | 2009               | 2008               |
| (Dollars in thousands)  |                    |                    |
| Increase (decrease) during the period between the market value and cost of investments carried at market value, and deferred taxes thereon: |                    |                    |
| Fixed maturities  | \$ 74,160          | \$ (29,062)        |
| Equity securities   | (244)              | 383                |
| Other invested assets   | (1,641)            | (1,798)            |
| Change in unrealized appreciation (depreciation), pre-tax   | 72,275             | (30,477)           |
| Deferred tax (expense) benefit  | (25,327)           | 9,956              |
| Change in unrealized appreciation (depreciation), net of deferred taxes, included in shareholders' equity                                   | <u>\$ 46,948</u>   | <u>\$ (20,521)</u> |

The Company frequently reviews its investment portfolio for declines in market value and focuses its attention on securities whose fair value has fallen below 80% of their amortized value at the time of review. The Company then assesses whether the decline in value is temporary or other-than-temporary. In making its assessment, the Company evaluates the current market and interest rate environment as well as specific issuer information and the Company's ability and intent to hold to recovery. Generally, a change in a security's value caused by a change in the market or interest rate environment does not constitute an other-

than-temporary impairment, but rather a temporary decline in market value. Temporary declines in market value are recorded as unrealized losses in accumulated other comprehensive income. If the Company determines that the decline is other-than-temporary, the carrying value of the investment is written down to fair value and a realized loss is recorded in the Company's consolidated statements of operations and comprehensive income. The Company's assessments are based on the issuers current and expected future financial position, timeliness with respect to interest and/or principal payments, speed of repayments and any applicable credit enhancements or breakeven constant default rates on asset-backed securities, as well as relevant information provided by rating agencies, investment advisors and analysts.

The components of net realized capital losses are presented in the table below for the periods indicated:

|  | Three Months Ended |                     |
|--|--------------------|---------------------|
|  | March 31,          |                     |
|  | 2009               | 2008                |
| (Dollars in thousands)                   |                    |                     |
| Fixed maturity securities, market value: |                    |                     |
| Other-than-temporary impairments         | \$ (8,274)         | \$ (947)            |
| Losses from sales                        | (39,594)           | (90)                |
| Fixed maturity securities, fair value:   |                    |                     |
| Gains from sales                         | 96                 | -                   |
| Losses from fair value adjustments       | (42)               | -                   |
| Equity securities, market value:         |                    |                     |
| Gains from sales                         | 47                 | -                   |
| Equity securities, fair value:           |                    |                     |
| Losses from sales                        | (449)              | (13,936)            |
| Losses from fair value adjustments       | (16,923)           | (121,461)           |
| Short-term investments gains             | 2                  | 51                  |
| Total net realized capital losses        | <u>\$ (65,137)</u> | <u>\$ (136,383)</u> |

Proceeds from sales of fixed maturity securities for the three months ended March 31, 2009 and 2008 were \$84.4 million and \$47.2 million, respectively. Gross gains of \$2.7 million and \$1.4 million and gross losses of \$42.3 million and \$1.5 million were realized on those fixed maturity sales for the three months ended March 31, 2009 and 2008, respectively. Proceeds from sales of equity security investments for the three months ended March 31, 2009 and 2008 were \$2.7 million and \$262.3 million, respectively. Gross gains of \$0.2 million and \$2.7 million and gross losses of \$0.7 million and \$16.6 million were realized on those equity sales for the three months ended March 31, 2009 and 2008, respectively.

Included in net realized capital losses for the three months ended March 31, 2009 and 2008 was \$8.3 million and \$0.9 million, respectively, for write-downs in the value of securities deemed to be impaired on an other-than-temporary basis.

#### 4. Derivatives

The Company sold seven equity index put options based on two indices in 2001 and in 2005. The Company sold these equity index put options as insurance products with the intent of achieving a profit. These equity index put options meet the definition of a derivative under FAS 133 and the Company's position in these contracts is unhedged. These equity index put options are not used for risk management purposes.

The Company sold six equity index put options based on the Standard & Poor's 500 ("S&P 500") index for total consideration, net of commissions, of \$22.5 million. At March 31, 2009, fair value for these equity put options was \$73.2 million. These contracts each have a single exercise date, with maturities ranging from 12 to 30 years and strike prices ranging from \$1,141.21 to \$1,540.63. No amounts will be payable under

these contracts if the S&P 500 index is at or above the strike prices on the exercise dates, which fall between June 2017 and March 2031. If the S&P 500 index is lower than the strike price on the applicable exercise date, the amount due would vary proportionately with the percentage by which the index is below the strike price. Based on historical index volatilities and trends and the March 31, 2009 index value, the Company estimates the probability for each contract of the S&P 500 index falling below the strike price on the exercise date to be less than 66%. The theoretical maximum payouts under the contracts would occur if on each of the exercise dates the S&P 500 index value were zero. At March 31, 2009, the present value of these theoretical maximum payouts using a 6% discount factor was \$243.1 million.

The Company sold one equity index put option based on the FTSE 100 index for total consideration, net of commissions, of \$6.7 million. At March 31, 2009, fair value for this equity put option was \$7.0 million. This contract has an exercise date of July 2020 and a strike price of £5,989.75. No amount will be payable under this contract if the FTSE 100 index is at or above the strike price on the exercise date. If the FTSE 100 index is lower than the strike price on the exercise date, the amount due will vary proportionately with the percentage by which the index is below the strike price. Based on historical index volatilities and trends and the March 31, 2009 index value, the Company estimates the probability that the FTSE 100 index contract will fall below the strike price on the exercise date to be less than 65%. The theoretical maximum payout under the contract would occur if on the exercise date the FTSE 100 index value was zero. At March 31, 2009, the present value of the theoretical maximum payout using a 6% discount factor and current exchange rate was \$23.8 million.

The fair value of the equity put options can be found in the Company's balance sheet as follows:

| (Dollars in thousands)  | Fair Value        |            |                   |            |
|---|-------------------|------------|-------------------|------------|
|   | March 31, 2009    |            | December 31, 2008 |            |
|   | Balance Sheet     |            | Balance Sheet     |            |
| Derivatives not designated as hedging instruments under Statement 133 | Location          | Fair Value | Location          | Fair Value |
| Equity contracts  | Other liabilities | \$ 80,255  | Other liabilities | \$ 60,552  |
| Total   |                   | \$ 80,255  |                   | \$ 60,552  |

The loss on the equity index put options can be found in the Company's statement of operations and comprehensive income as follows:

| (Dollars in thousands)  | Location of loss recognized in income of derivative | Amount of gain/(loss) recognized in income on derivatives |            |
|---|---|---|------------|
|   |   | March 31,   |            |
|   |   | 2009  | 2008       |
| Derivatives not designated as hedging instruments under Statement 133 | Net derivative loss                                 | \$ (19,703)   | \$ (3,795) |
| Total   |   | \$ (19,703)   | \$ (3,795) |

The Company's derivative (equity index put options) contracts contain provisions that require collateralization of the fair value, as calculated by the counterparty, above a specified threshold, which are based on the Company's financial strength ratings (Moody's) and/or debt ratings (Standard & Poor's). The aggregate fair value of all derivative instruments with credit-risk-related contingent features that were in a liability position on March 31, 2009, was \$80.3 million for which the Company had posted collateral of \$32.2 million. If on March 31, 2009, the Company's ratings were such that the collateral threshold was zero, the Company would be required to post an additional \$48.1 million, which is an approximation of the counterparties' fair value calculation.

## 5. Fair Value

The Company records fair value re-measurements as net realized capital gains or losses in the consolidated statements of operations and comprehensive income. The Company recorded \$17.0 million and \$121.5 million in net realized capital losses due to fair value re-measurement on fixed maturity securities and equity securities at fair value for the three months ended March 31, 2009 and 2008, respectively.

The Company's fixed maturities and equity securities are managed by third party investment asset managers and market and fair values for these securities are obtained from third party pricing services retained by the investment asset managers. In limited instances where prices are not provided by the pricing services, price quotes on a non-binding basis are obtained from investment brokers. The investment asset managers have procedures in place to review the reasonableness of the prices from the service providers and may obtain additional price quotes for verification. In addition, the Company tests the prices on a random basis to an independent pricing source. In limited situations, where financial markets are inactive or illiquid, the Company may use its own assumptions about future cash flows and risk-adjusted discount rates to determine fair value.

Fixed maturities are categorized as Level 2, Significant Other Observable Inputs, since a particular security may not have traded but the pricing services are able to use valuation models with observable market inputs such as interest rate yield curves and prices for similar fixed maturities in terms of issuer, maturity and seniority. Valuations that are derived from techniques in which one or more of the significant inputs are unobservable (including assumptions about risk) are categorized as Level 3, Significant Unobservable Inputs. These securities include broker priced securities and valuation of less liquid securities such as commercial mortgage-backed securities and the Company's equity index put options.

Equity securities in U.S. denominated currency are categorized as Level 1, Quoted Prices in Active Markets for Identical Assets, since the securities are actively traded on an exchange and prices are based on quoted prices from the exchange. Equity securities traded on foreign exchanges are categorized as Level 2 due to potential foreign exchange adjustments to fair or market value.

The Company sold seven equity index put options which meet the definition of a derivative under FAS 133. The Company's position in these contracts is unhedged. The Company recorded the change in fair value of \$19.7 million and \$3.8 million for the three months ended March 31, 2009 and 2008, respectively, as net derivative expense in the consolidated statements of operations and comprehensive income.

The fair value was calculated using an industry accepted option pricing model, Black-Scholes, which used the following assumptions:

|                  | At March 31, 2009                  |                                  |
|------------------|------------------------------------|----------------------------------|
|                  | Contracts based on S & P 500 Index | Contract based on FTSE 100 Index |
| Equity index     | \$ 797.9                           | £ 3926.1                         |
| Interest rate    | 4.40% to 5.39%                     | 5.36%                            |
| Time to maturity | 8.2 to 22.0 yrs                    | 11.3 yrs                         |
| Volatility       | 22.3% to 24.9%                     | 26.1%                            |

The following tables present the fair value measurement levels for all assets and liabilities, which the Company has recorded at fair value as of the periods indicated:

|                                 |                | Fair Value Measurement Using:   |   |  |
|---------------------------------|----------------|---|---|--|
|                                 |                | Quoted Prices<br>in Active<br>Markets for<br>Identical<br>Assets<br>(Level 1) | Significant<br>Other<br>Observable<br>Inputs<br>(Level 2) | Significant<br>Unobservable<br>Inputs<br>(Level 3) |
| (Dollars in thousands)          | March 31, 2009 |   |   |  |
| <b>Assets:</b>                  |                |   |   |  |
| Fixed maturities, market value  | \$ 11,195,981  | \$ -  | \$ 11,106,444   | \$ 89,537  |
| Fixed maturities, fair value    | 47,391         | -   | 47,391  | -  |
| Equity securities, market value | 14,358         | 14,358  | -   | -  |
| Equity securities, fair value   | 109,788        | 109,399   | 389   | -  |
| <b>Liabilities:</b>             |                |   |   |  |
| Equity put options              | \$ 80,255      | \$ -  | \$ -  | \$ 80,255  |

|                                 |                   | Fair Value Measurement Using:   |   |  |
|---------------------------------|-------------------|---|---|--|
|                                 |                   | Quoted Prices<br>in Active<br>Markets for<br>Identical<br>Assets<br>(Level 1) | Significant<br>Other<br>Observable<br>Inputs<br>(Level 2) | Significant<br>Unobservable<br>Inputs<br>(Level 3) |
| (Dollars in thousands)          | December 31, 2008 |   |   |  |
| <b>Assets:</b>                  |                   |   |   |  |
| Fixed maturities, market value  | \$ 10,759,612     | \$ -  | \$ 10,466,005   | \$ 293,607   |
| Fixed maturities, fair value    | 43,090            | -   | 43,090  | -  |
| Equity securities, market value | 16,900            | 16,900  | -   | -  |
| Equity securities, fair value   | 119,829           | 119,104   | 725   | -  |
| <b>Liabilities:</b>             |                   |   |   |  |
| Equity put options              | \$ 60,552         | \$ -  | \$ -  | \$ 60,552  |

The following table presents the fixed maturity investments for which fair value was measured under Level 3, fair value measurements using significant unobservable inputs, for the periods indicated:

|   |  | Three Months Ended<br>March 31, |                  |
|---|--|---------------------------------|------------------|
|   |  | 2009                            | 2008             |
| (Dollars in thousands)                          |  |                                 |                  |
| <b>Assets:</b>                                  |  |                                 |                  |
| Beginning balance at January 1                  |  | \$ 293,607                      | \$ 267,978       |
| Total gains or (losses) (realized/unrealized)   |  |                                 |                  |
| Included in earnings (or changes in net assets) |  | 28                              | (328)            |
| Included in other comprehensive income          |  | 4,115                           | (940)            |
| Purchases, issuances and settlements            |  | (97)                            | (6,843)          |
| Transfers in and/or (out) of Level 3            |  | (208,116)                       | (207,269)        |
| Ending balance at March 31                      |  | <u>\$ 89,537</u>                | <u>\$ 52,598</u> |

The amount of total gains or losses for the period included in earnings (or changes in net assets) attributable to the change in unrealized gains or losses relating to assets still held at the reporting date

|          |          |
|----------|----------|
| \$ (816) | \$ (387) |
|----------|----------|

The following table presents the equity index put options for which fair value was measured under Level 3, fair value measurements using significant unobservable inputs, for the periods indicated:

|  | Three Months Ended<br>March 31, |                  |
|--|---------------------------------|------------------|
|  | 2009                            | 2008             |
| (Dollars in thousands)   |                                 |                  |
| Liabilities:   |                                 |                  |
| Beginning balance at January 1   | \$ 60,552                       | \$ 39,653        |
| Total (gains) or losses (realized/unrealized)  |                                 |                  |
| Included in earnings (or changes in net assets)  | 19,703                          | 3,795            |
| Included in other comprehensive income   | -                               | -                |
| Purchases, issuances and settlements   | -                               | -                |
| Transfers in and/or (out) of Level 3   | -                               | -                |
| Ending balance at March 31   | <u>\$ 80,255</u>                | <u>\$ 43,448</u> |
| The amount of total gains or losses for the period included in earnings<br>(or changes in net assets) attributable to the change in unrealized<br>gains or losses relating to liabilities still held at the reporting date | <u>\$ 19,703</u>                | <u>\$ 3,795</u>  |

## 6. Capital Transactions

On December 17, 2008, the Company renewed its shelf registration statement on Form S-3ASR with the Securities and Exchange Commission (the "SEC"), as a Well Known Seasoned Issuer. This shelf registration statement can be used by Group to register common shares, preferred shares, debt securities, warrants, share purchase contracts and share purchase units; by Holdings to register debt securities and by Everest Re Capital Trust III ("Capital Trust III") to register trust preferred securities.

## 7. Earnings Per Common Share

Net income per common share has been computed below, based upon weighted average common basic and dilutive shares outstanding.

|   | Three Months Ended<br>March 31, |                  |
|---|---------------------------------|------------------|
|   | 2009                            | 2008             |
| (Dollars in thousands, except per share amounts)  |                                 |                  |
| Net income (numerator)  | <u>\$ 108,556</u>               | <u>\$ 77,933</u> |
| Weighted average common and effect of dilutive shares<br>used in the computation of net income per share: |                                 |                  |
| Weighted average shares outstanding - basic (denominator)   | 61,294                          | 62,377           |
| Effect of dilutive shares   | <u>139</u>                      | <u>483</u>       |
| Weighted average shares outstanding - diluted (denominator)   | <u>61,433</u>                   | <u>62,860</u>    |
| Net income per common share:  |                                 |                  |
| Basic   | \$ 1.77                         | \$ 1.25          |
| Diluted   | \$ 1.77                         | \$ 1.24          |

Options to purchase 1,919,976 and 747,600 common shares for the three months ended March 31, 2009 and 2008, respectively, at prices ranging from \$67.825 to \$99.980 per share were outstanding but were not included in the computation of earnings per diluted share as the options' exercise prices were greater than the average market price of the common shares for the relevant period. All outstanding options expire on or between February 23, 2010 and February 23, 2019.

## 8. Contingencies

In the ordinary course of business, the Company is involved in lawsuits, arbitrations and other formal and informal dispute resolution procedures, the outcomes of which will determine the Company's rights and obligations under insurance, reinsurance and other contractual agreements. In some disputes, the Company seeks to enforce its rights under an agreement or to collect funds owing to it. In other matters, the Company is resisting attempts by others to collect funds or enforce alleged rights. These disputes arise from time to time and are ultimately resolved through both informal and formal means, including negotiated resolution, arbitration and litigation. In all such matters, the Company believes that its positions are legally and commercially reasonable. While the final outcome of these matters cannot be predicted with certainty, the Company does not believe that any of these matters, when finally resolved, will have a material adverse effect on the Company's financial position or liquidity. However, an adverse resolution of one or more of these items in any one quarter or fiscal year could have a material adverse effect on the Company's results of operations in that period.

In 1993 and prior, the Company had a business arrangement with The Prudential Insurance Company of America ("The Prudential") wherein, for a fee, the Company accepted settled claim payment obligations of certain property and casualty insurers, and, concurrently, became the owner of the annuity or assignee of the annuity proceeds funded by the property and casualty insurers specifically to fulfill these fully settled obligations. In these circumstances, the Company would be liable if The Prudential, which has an A+ (Superior) financial strength rating from A.M. Best Company ("A.M. Best"), was unable to make the annuity payments. The estimated cost to replace all such annuities for which the Company was contingently liable at March 31, 2009 and December 31, 2008 was \$152.8 million and \$152.1 million, respectively.

Prior to its 1995 initial public offering, the Company purchased annuities from an unaffiliated life insurance company with an A+ (Superior) financial strength rating from A.M. Best to settle certain claim liabilities of the company. Should the life insurance company become unable to make the annuity payments, the Company would be liable for those claim liabilities. The estimated cost to replace such annuities at March 31, 2009 and December 31, 2008, was \$23.2 million and \$23.1 million, respectively.

## 9. Other Comprehensive Loss

The following table presents the components of other comprehensive loss for the periods indicated:

|   | Three Months Ended |                   |
|---|--------------------|-------------------|
|   | March 31,          |                   |
| (Dollars in thousands)                          | 2009               | 2008              |
| Unrealized gains (losses) on securities         | \$ 72,275          | \$ (30,477)       |
| Tax (expense) benefit                           | (25,327)           | 9,956             |
| Net unrealized gains (losses) on securities     | <u>46,948</u>      | <u>(20,521)</u>   |
| Foreign currency translation adjustments        | (59,793)           | 19,742            |
| Tax benefit (expense)                           | 10,060             | (3,212)           |
| Net foreign currency translation adjustments    | <u>(49,733)</u>    | <u>16,530</u>     |
| Other comprehensive loss, net of deferred taxes | <u>\$ (2,785)</u>  | <u>\$ (3,991)</u> |

## 10. Credit Line

Effective July 27, 2007, Group, Bermuda Re and Everest International entered into a five year, \$850.0 million senior credit facility with a syndicate of lenders referred to as the "Group Credit Facility". Wachovia

Bank, a subsidiary of Wells Fargo Corporation (“Wachovia Bank”) is the administrative agent for the Group Credit Facility, which consists of two tranches. Tranche one provides up to \$350.0 million of unsecured revolving credit for liquidity and general corporate purposes, and for the issuance of unsecured standby letters of credit. The interest on the revolving loans shall, at the Company’s option, be either (1) the Base Rate (as defined below) or (2) an adjusted London Interbank Offered Rate (“LIBOR”) plus a margin. The Base Rate is the higher of (a) the prime commercial lending rate established by Wachovia Bank or (b) the Federal Funds Rate plus 0.5% per annum. The amount of margin and the fees payable for the Group Credit Facility depends on Group’s senior unsecured debt rating. Tranche two exclusively provides up to \$500.0 million for the issuance of standby letters of credit on a collateralized basis.

The Group Credit Facility requires Group to maintain a debt to capital ratio of not greater than 0.35 to 1 and to maintain a minimum net worth. Minimum net worth is an amount equal to the sum of \$3,575.4 million plus 25% of consolidated net income for each of Group’s fiscal quarters, for which statements are available ending on or after January 1, 2007 and for which consolidated net income is positive, plus 25% of any increase in consolidated net worth during such period attributable to the issuance of ordinary and preferred shares, which at March 31, 2009, was \$3,884.4 million. As of March 31, 2009, the Company was in compliance with all Group Credit Facility covenants.

At March 31, 2009, there were outstanding letters of credit of \$5.7 million and \$339.6 million under tranche one and tranche two of the Group Credit Facility, respectively. At December 31, 2008, there were no outstanding letters of credit under tranche one and \$411.9 million under tranche two of the Group Credit Facility.

Effective August 23, 2006, Holdings entered into a five year, \$150.0 million senior revolving credit facility with a syndicate of lenders referred to as the “Holdings Credit Facility”. Citibank N.A. is the administrative agent for the Holdings Credit Facility. The Holdings Credit Facility may be used for liquidity and general corporate purposes. The Holdings Credit Facility provides for the borrowing of up to \$150.0 million with interest at a rate selected by Holdings equal to either, (1) the Base Rate (as defined below) or (2) a periodic fixed rate equal to the Eurodollar Rate plus an applicable margin. The Base Rate means a fluctuating interest rate per annum in effect from time to time to be equal to the higher of (a) the rate of interest publicly announced by Citibank as its prime rate or (b) 0.5% per annum above the Federal Funds Rate, in each case plus the applicable margin. The amount of margin and the fees payable for the Holdings Credit Facility depends upon Holdings’ senior unsecured debt rating.

The Holdings Credit Facility requires Holdings to maintain a debt to capital ratio of not greater than 0.35 to 1 and Everest Re to maintain its statutory surplus at \$1.5 billion plus 25% of future aggregate net income and 25% of future aggregate capital contributions after December 31, 2005, which at March 31, 2009, was \$1,837.9 million. As of March 31, 2009, Holdings was in compliance with all Holdings Credit Facility covenants.

At March 31, 2009 and December 31, 2008, there were outstanding letters of credit of \$28.0 million under the Holdings Credit Facility.

Costs incurred in connection with the Group Credit Facility and the Holdings Credit Facility were \$0.3 million for the three months ended March 31, 2009 and 2008.

## **11. Letters of Credit**

The Company has arrangements available for the issuance of letters of credit, which letters are generally collateralized by the Company’s cash and investments. The Company’s agreement with Citibank is a bilateral

letter of credit agreement only. The Company's other facility, the Wachovia Group Credit Facility, involves a syndicate of lenders (see Note 10 of the Group Credit Facility), with Wachovia acting as administrative agent. The Citibank Holdings Credit Facility involves a syndicate of lenders (see Note 10 of the Holdings Credit Facility), with Citibank acting as administrative agent. At March 31, 2009 and December 31, 2008, letters of credit for \$526.8 million and \$589.0 million, respectively, were issued and outstanding. The letters of credit collateralize reinsurance obligations of the Company's non-U.S. operations. The following table summarizes the Company's letters of credit as of March 31, 2009.

(Dollars in thousands)

| Bank  |   | Commitment          | In Use            | Date of Expiry |
|---|---|---------------------|-------------------|----------------|
| Citibank Bilateral Letter of Credit Agreement |   | \$ 300,000          | \$ 56,892         | 12/31/2009     |
|   |   |                     | 32,944            | 1/31/2010      |
|   |   |                     | 29,022            | 12/31/2011     |
|   |   |                     | 34,683            | 12/31/2012     |
|   | Total Citibank Bilateral Agreement      | <u>\$ 300,000</u>   | <u>\$ 153,541</u> |                |
| Citibank Holdings Credit Facility             |   | \$ 150,000          | \$ 27,959         | 12/31/2009     |
|   | Total Citibank Holdings Credit Facility | <u>\$ 150,000</u>   | <u>\$ 27,959</u>  |                |
| Wachovia Group Credit Facility                | Tranche One                             | \$ 350,000          | \$ 5,709          | 12/31/2009     |
|   | Tranche Two                             | 500,000             | 339,621           | 12/31/2009     |
|   | Total Wachovia Group Credit Facility    | <u>\$ 850,000</u>   | <u>\$ 345,330</u> |                |
| Total Letters of Credit                       |   | <u>\$ 1,300,000</u> | <u>\$ 526,830</u> |                |

## 12. Trust Agreements

Certain subsidiaries of Group, principally Everest Reinsurance (Bermuda), Ltd. ("Bermuda Re"), a Bermuda insurance company and direct subsidiary of Group, have established trust agreements, which effectively use the Company's investments as collateral, as security for assumed losses payable to certain non-affiliated ceding companies. At March 31, 2009, the total amount on deposit in trust accounts was \$90.5 million.

## 13. Senior Notes

On October 12, 2004, Holdings completed a public offering of \$250.0 million principal amount of 5.40% senior notes due October 15, 2014. On March 14, 2000, Holdings completed a public offering of \$200.0 million principal amount of 8.75% senior notes due March 15, 2010.

Interest expense incurred in connection with these senior notes was \$7.8 million for the three months ended March 31, 2009 and 2008. Market value, which is based on quoted market price at March 31, 2009 and December 31, 2008, was \$212.5 million and \$186.2 million, respectively, for the 5.40% senior notes and \$201.2 million and \$156.8 million, respectively, for the 8.75% senior notes.

## 14. Long Term Subordinated Notes

On April 26, 2007, Holdings completed a public offering of \$400.0 million principal amount of 6.6% fixed to floating rate long term subordinated notes with a scheduled maturity date of May 15, 2037 and a final maturity date of May 1, 2067. During the fixed rate interest period from May 3, 2007 through May 14, 2017, interest will be at the annual rate of 6.6%, payable semi-annually in arrears on November 15 and May 15 of each year, commencing on November 15, 2007, subject to Holdings' right to defer interest on one or more occasions for up to ten consecutive years. During the floating rate interest period from May 15, 2017 through maturity, interest will be based on the 3 month LIBOR plus 238.5 basis points, reset quarterly,

payable quarterly in arrears on February 15, May 15, August 15 and November 15 of each year, subject to Holdings' right to defer interest on one or more occasions for up to ten consecutive years. Deferred interest will accumulate interest at the applicable rate compounded semi-annually for periods prior to May 15, 2017, and compounded quarterly for periods from and including May 15, 2017.

Holdings can redeem the long term subordinated notes prior to May 15, 2017, in whole but not in part at the applicable redemption price, which will equal the greater of (a) 100% of the principal amount being redeemed and (b) the present value of the principal payment on May 15, 2017 and scheduled payments of interest that would have accrued from the redemption date to May 15, 2017 on the long term subordinated notes being redeemed, discounted to the redemption date on a semi-annual basis at a discount rate equal to the treasury rate plus an applicable spread of either 0.25% or 0.50%, in each case plus accrued and unpaid interest. Holdings may redeem the long term subordinated notes on or after May 15, 2017, in whole or in part at 100% of the principal amount plus accrued and unpaid interest; however, redemption on or after the scheduled maturity date and prior to May 1, 2047 is subject to a replacement capital covenant. This covenant is for the benefit of certain senior note holders and it mandates that Holdings receive proceeds from the sale of another subordinated debt issue, of at least similar size, before it may redeem the subordinated notes.

On March 19, 2009, Group announced the commencement of a cash tender offer for any and all of the 6.60% fixed to floating rate long term subordinated notes. Upon expiration of the tender offer, the Company had reduced its outstanding debt by \$161.4 million, which resulted in a pre-tax gain on debt repurchase of \$78.3 million.

Interest expense incurred in connection with these long term notes was \$6.5 million and \$6.6 million for the three months ended March 31, 2009 and 2008, respectively. Market value, which is based on quoted market price at March 31, 2009 and December 31, 2008, was \$118.1 million on outstanding 6.6% long term subordinated notes of \$238.3 million and \$168.0 million on outstanding 6.6% long term subordinated notes of \$399.6 million, respectively.

#### **15. Junior Subordinated Debt Securities Payable**

On March 29, 2004, Holdings issued \$329.9 million of 6.20% junior subordinated debt securities due March 29, 2034 to Everest Re Capital Trust II ("Capital Trust II"). Holdings may redeem the junior subordinated debt securities before their maturity at 100% of their principal amount plus accrued interest as of the date of redemption. The securities may be redeemed, in whole or in part, on one or more occasions at any time on or after March 30, 2009; or at any time, in whole, but not in part, within 90 days of the occurrence and continuation of a determination that the Trust may become subject to tax or the Investment Company Act.

Fair value, which is primarily based on the quoted market price of the related trust preferred securities at March 31, 2009 and December 31, 2008, was \$220.7 million and \$222.2 million, respectively, for the 6.20% junior subordinated debt securities.

Interest expense incurred in connection with these junior subordinated notes was \$5.1 million for the three months ended March 31, 2009 and 2008.

Capital Trust II is a wholly owned finance subsidiary of Holdings.

Holdings considers that the mechanisms and obligations relating to the trust preferred securities, taken together, constitute a full and unconditional guarantee by Holdings of Capital Trust II's payment obligations with respect to their trust preferred securities.

Capital Trust II will redeem all of the outstanding trust preferred securities when the junior subordinated debt securities are paid at maturity on March 29, 2034. The Company may elect to redeem the junior subordinated debt securities, in whole or in part, at any time on or after March 30, 2009. If such an early redemption occurs, the outstanding trust preferred securities would also be proportionately redeemed.

There are certain regulatory and contractual restrictions on the ability of Holdings' operating subsidiaries to transfer funds to Holdings in the form of cash dividends, loans or advances. The insurance laws of the State of Delaware, where Holdings' direct insurance subsidiaries are domiciled, require regulatory approval before those subsidiaries can pay dividends or make loans or advances to Holdings that exceed certain statutory thresholds. In addition, the terms of Holdings Credit Facility (discussed in Note 10) require Everest Re, Holdings' principal insurance subsidiary, to maintain a certain statutory surplus level as measured at the end of each fiscal year. At December 31, 2008, \$1,745.6 million of the \$2,735.2 million in net assets of Holdings' consolidated subsidiaries were subject to the foregoing regulatory restrictions.

## **16. Segment Results**

The Company, through its subsidiaries, operates in five segments: U.S. Reinsurance, U.S. Insurance, Specialty Underwriting, International and Bermuda. The U.S. Reinsurance operation writes property and casualty reinsurance, on both a treaty and facultative basis, through reinsurance brokers, as well as directly with ceding companies within the U.S. The U.S. Insurance operation writes property and casualty insurance primarily through general agents and surplus lines brokers within the U.S. The Specialty Underwriting operation writes accident and health ("A&H"), marine, aviation and surety business within the U.S. and worldwide through brokers and directly with ceding companies. The International operation writes non-U.S. property and casualty reinsurance through Everest Re's branches in Canada and Singapore and offices in Miami and New Jersey. The Bermuda operation provides reinsurance and insurance to worldwide property and casualty markets and reinsurance to life insurers through brokers and directly with ceding companies from its Bermuda office and reinsurance to the United Kingdom and European markets through its UK branch.

These segments are managed in a coordinated fashion with respect to pricing, risk management, control of aggregate catastrophe exposures, capital, investments and support operations. Management generally monitors and evaluates the financial performance of these operating segments based upon their underwriting results.

Underwriting results include earned premium less losses and loss adjustment expenses ("LAE") incurred, commission and brokerage expenses and other underwriting expenses. Underwriting results are measured using ratios, in particular loss, commission and brokerage and other underwriting expense ratios, which, respectively, divide incurred losses, commissions and brokerage and other underwriting expenses by premiums earned. The Company utilizes inter-affiliate reinsurance, although such reinsurance does not materially impact segment results, as business is generally reported within the segment in which the business was first produced.

The Company does not maintain separate balance sheet data for its operating segments. Accordingly, the Company does not review and evaluate the financial results of its operating segments based upon balance sheet data.

The following tables present the underwriting results for the operating segments for the periods indicated:

U.S. Reinsurance

(Dollars in thousands)

Gross written premiums  
Net written premiums

Premiums earned  
Incurred losses and LAE  
Commission and brokerage  
Other underwriting expenses  
Underwriting gain

| Three Months Ended<br>March 31, |         |            |
|---------------------------------|---------|------------|
|                                 | 2009    | 2008       |
| \$                              | 264,331 | \$ 233,719 |
|                                 | 260,500 | 229,873    |
| \$                              | 263,157 | \$ 289,284 |
|                                 | 137,785 | 176,862    |
|                                 | 65,339  | 80,266     |
|                                 | 7,562   | 8,810      |
| \$                              | 52,471  | \$ 23,346  |

U.S. Insurance

(Dollars in thousands)

Gross written premiums  
Net written premiums

Premiums earned  
Incurred losses and LAE  
Commission and brokerage  
Other underwriting expenses  
Underwriting gain

| Three Months Ended<br>March 31, |         |            |
|---------------------------------|---------|------------|
|                                 | 2009    | 2008       |
| \$                              | 204,717 | \$ 210,460 |
|                                 | 182,441 | 176,596    |
| \$                              | 166,020 | \$ 194,514 |
|                                 | 116,023 | 133,939    |
|                                 | 31,520  | 35,368     |
|                                 | 17,281  | 14,342     |
| \$                              | 1,196   | \$ 10,865  |

Specialty Underwriting

(Dollars in thousands)

Gross written premiums  
Net written premiums

Premiums earned  
Incurred losses and LAE  
Commission and brokerage  
Other underwriting expenses  
Underwriting gain

| Three Months Ended<br>March 31, |        |           |
|---------------------------------|--------|-----------|
|                                 | 2009   | 2008      |
| \$                              | 58,923 | \$ 54,911 |
|                                 | 57,967 | 54,271    |
| \$                              | 63,134 | \$ 52,285 |
|                                 | 40,041 | 28,349    |
|                                 | 18,582 | 16,394    |
|                                 | 1,845  | 2,411     |
| \$                              | 2,666  | \$ 5,131  |

International

(Dollars in thousands)

Gross written premiums  
Net written premiums

Premiums earned  
Incurred losses and LAE  
Commission and brokerage  
Other underwriting expenses  
Underwriting gain

| Three Months Ended<br>March 31, |         |            |
|---------------------------------|---------|------------|
|                                 | 2009    | 2008       |
| \$                              | 250,750 | \$ 186,378 |
|                                 | 250,727 | 186,286    |
| \$                              | 254,514 | \$ 190,968 |
|                                 | 155,341 | 109,746    |
|                                 | 66,337  | 46,310     |
|                                 | 4,620   | 5,054      |
| \$                              | 28,216  | \$ 29,858  |

Bermuda

(Dollars in thousands)

Gross written premiums  
Net written premiums

Premiums earned  
Incurred losses and LAE  
Commission and brokerage  
Other underwriting expenses  
Underwriting gain

| Three Months Ended |            |
|--------------------|------------|
| March 31,          |            |
| 2009               | 2008       |
| \$ 219,064         | \$ 192,034 |
| 219,111            | 191,637    |
| \$ 185,465         | \$ 184,922 |
| 120,715            | 96,454     |
| 44,260             | 48,809     |
| 5,047              | 6,787      |
| \$ 15,443          | \$ 32,872  |

The following table reconciles the underwriting results for the operating segments to income before taxes as reported in the consolidated statements of operations and comprehensive income for the periods indicated:

| Three Months Ended |            |
|--------------------|------------|
| March 31,          |            |
| 2009               | 2008       |
| \$ 99,992          | \$ 102,072 |
| 68,754             | 150,132    |
| (65,137)           | (136,383)  |
| 78,271             | -          |
| (19,703)           | (3,795)    |
| (3,780)            | (2,840)    |
| (20,142)           | (19,787)   |
| (5,180)            | (5,161)    |
| \$ 133,075         | \$ 84,238  |

The Company produces business in the U.S., Bermuda and internationally. The net income deriving from and assets residing in the individual foreign countries in which the Company writes business are not identifiable in the Company's financial records. Based on gross written premium, the largest country, other than the U.S., in which the Company writes business, is the United Kingdom, with \$128.0 million of gross written premium for the three months ended March 31, 2009. No other country represented more than 5% of the Company's revenues.

**17. Share-Based Compensation Plans**

For the three months ended March 31, 2009, share-based compensation awards granted were: (1) 105,250 restricted shares and 630,400 options, granted on February 18, 2009, with a grant exercise price of \$71.715 per share and a per option fair value of \$17.44 and (2) 5,000 options, granted on February 23, 2009, with a grant exercise price of \$67.825 per share and a per option fair value of \$16.58. The fair value per option for each grant was calculated on the date of the grant using the Black-Scholes option valuation model. The following assumptions were used in calculating the fair value of the options granted for the grants as indicated:

|                                 | February 18, 2009 | February 23, 2009 |
|---------------------------------|-------------------|-------------------|
|                                 | Grant             | Grant             |
| Weighted-average volatility     | 27.32%            | 27.36%            |
| Weighted-average dividend yield | 2.00%             | 2.00%             |
| Weighted-average expected term  | 6.6 years         | 6.6 years         |
| Weighted-average risk-free rate | 2.11%             | 2.15%             |

In 2008, the Company adopted Emerging Issues Task Force (“EITF”) Issue No. 06-11, “Accounting for Income Tax Benefits of Dividends on Share-Based Payment Awards” (“EITF 06-11”). EITF 06-11 states that realized income tax benefits from dividends that are charged to retained earnings and are paid to employees for equity classified nonvested equity shares should be recognized as an increase to additional paid-in capital. In addition, the amount recognized in additional paid-in capital for the realized income tax benefit from dividends on those awards should be included in the pool of excess tax benefits available to absorb tax deficiencies on share-based payment awards. In 2009, the Company recognized \$33.3 thousand of additional paid-in capital due to tax benefits from dividends on nonvested restricted shares.

## 18. Retirement Benefits

The Company maintains both qualified and non-qualified defined benefit pension plans for its U.S. employees. In addition, the Company has a retiree health plan for eligible retired employees.

Net periodic benefit cost for U.S. employees included the following components for the periods indicated:

### Pension Benefits

(Dollars in thousands)

|                                    | Three Months Ended<br>March 31, |                 |
|------------------------------------|---------------------------------|-----------------|
|                                    | 2009                            | 2008            |
| Service cost                       | \$ 1,328                        | \$ 1,437        |
| Interest cost                      | 1,635                           | 1,394           |
| Expected return on plan assets     | (1,098)                         | (1,756)         |
| Amortization of prior service cost | 12                              | 13              |
| Amortization of net loss           | 728                             | 100             |
| FAS 88 settlement charge           | 800                             | 181             |
| Net periodic benefit cost          | <u>\$ 3,405</u>                 | <u>\$ 1,369</u> |

### Other Benefits

(Dollars in thousands)

|                           | Three Months Ended<br>March 31, |               |
|---------------------------|---------------------------------|---------------|
|                           | 2009                            | 2008          |
| Service cost              | \$ 203                          | \$ 206        |
| Interest cost             | 203                             | 163           |
| Amortization of net loss  | -                               | 12            |
| Net periodic benefit cost | <u>\$ 406</u>                   | <u>\$ 381</u> |

The Company did not make any contributions to the pension benefit plan for the three months ended March 31, 2009 and 2008.

## 19. Related-Party Transactions

During the normal course of business, the Company, through its affiliates, engages in reinsurance and brokerage and commission business transactions with companies controlled by or affiliated with one or more of its outside directors. Such transactions, individually and in the aggregate, are not material to the Company’s financial condition, results of operations and cash flows.

## 20. Income Taxes

The Company uses a projected annual effective tax rate in accordance with FASB Statement No. 109, “Accounting for Income Taxes” (“FAS 109”), to calculate its quarterly tax expense. Under this methodology, when an interim quarter’s pre-tax income (loss) varies significantly from a full year’s income (loss) projection, the tax impact resulting from the income (loss) variance is effectively spread between the impacted quarter and the remaining quarters of the year, except for discreet items impacting an individual quarter.

The Company recognizes accrued interest related to unrecognized tax benefits and penalties in income taxes. For the three months ended March 31, 2009, the Company expensed approximately \$2.0 million in interest and penalties.

## **ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATION**

### **Industry Conditions.**

The worldwide reinsurance and insurance businesses are highly competitive, as well as cyclical by product and market. As a result, financial results tend to fluctuate with periods of constrained availability, high rates and strong profits followed by periods of abundant capacity, low rates and constrained profitability. Competition in the types of reinsurance and insurance business that we underwrite is based on many factors, including the perceived overall financial strength of the reinsurer or insurer, ratings of the reinsurer or insurer by A.M. Best Company and/or Standard & Poor's Rating Services, underwriting expertise, the jurisdictions where the reinsurer or insurer is licensed or otherwise authorized, capacity and coverages offered, premiums charged, other terms and conditions of the reinsurance and insurance business offered, services offered, speed of claims payment and reputation and experience in lines written. Furthermore, the market impact from these competitive factors related to reinsurance and insurance is generally not consistent across lines of business, domestic and international geographical areas and distribution channels.

We compete in the U.S., Bermuda and international reinsurance and insurance markets with numerous global competitors. Our competitors include independent reinsurance and insurance companies, subsidiaries or affiliates of established worldwide insurance companies, reinsurance departments of certain insurance companies and domestic and international underwriting operations, including underwriting syndicates at Lloyd's. Some of these competitors have greater financial resources than we do and have established long term and continuing business relationships, which can be a significant competitive advantage. In addition, the lack of strong barriers to entry into the reinsurance business and the potential for securitization of reinsurance and insurance risks through capital markets provide additional sources of potential reinsurance and insurance capacity and competition.

Starting in the latter part of 2007, throughout 2008 and into 2009, there has been a significant slowdown in the global economy. Excessive availability and use of credit, particularly by individuals, led to increased defaults on sub-prime mortgages in the U.S. and elsewhere, falling values for houses and many commodities and contracting consumer spending. The significant increase in default rates negatively impacted the value of asset-backed securities held by both foreign and domestic institutions. The defaults have led to a corresponding increase in foreclosures, which have driven down housing values, resulting in additional losses on the asset-backed securities. During the third and fourth quarters of 2008, the credit markets deteriorated dramatically, evidenced by widening credit spreads and dramatically reduced availability of credit. Many financial institutions, including some insurance entities, experienced liquidity crises due to immediate demands for funds for withdrawals or collateral, combined with falling asset values and their inability to sell assets to meet the increased demands. As a result, several financial institutions have failed or been acquired at distressed prices, while others have received loans from the U.S. government to continue operations. The liquidity crisis significantly increased the spreads on fixed maturities and, at the same time, had a dramatic and negative impact on the stock markets around the world. The combination of losses on securities from failed or impaired companies combined with the decline in values of fixed maturities and equity securities has resulted in significant declines in the capital bases of most insurance and reinsurance companies. While there was some slight improvement in the financial markets during the first quarter of 2009, it is too early to predict the timing and extent of impact the capital deterioration will have on insurance and reinsurance market conditions. There is an expectation that these events will ultimately result in increased rates for insurance and reinsurance in certain segments of the market, but there is no assurance that this will not be the case.

Worldwide insurance and reinsurance market conditions continued to be very competitive. Generally, there was ample insurance and reinsurance capacity relative to demand. We noted, however, that in many markets and lines, the rates of decline have slowed, pricing in some segments was relatively flat and there was upward movement in some others, particularly property catastrophe coverage. Competition and its effect on rates, terms and conditions vary widely by market and coverage yet continues to be most prevalent in the U.S. casualty insurance and reinsurance markets. The U.S. insurance markets in which we participate were extremely competitive as well, particularly in the workers' compensation, public entity and contractor

sectors. While our growth in existing programs has slowed, given the specialty nature of our business and our underwriting discipline, we believe the impact on the profitability of our business will be less pronounced than on the market generally. In addition, we continue to opportunistically add new programs and lines of business to enhance growth and profitability.

Rates in the international markets have generally been more adequate than in the U.S., and we have seen some increases, particularly for catastrophe exposed business. We have grown our business in the Middle East, Latin America and Asia. We are expanding our international reach by opening a new office in Brazil to capitalize on the recently expanded opportunity for professional reinsurers in that market and on the economic growth expected for Brazil in the future.

The reinsurance industry has experienced a period of falling rates and volume. Profit opportunities have become generally less available over time; however the unfavorable trends appear to have abated somewhat. We are now seeing smaller rate declines, pockets of stability and some increases in some markets and for some coverages. As a result of very significant investment and catastrophe losses incurred by both primary insurers and reinsurers over the past year, but principally in the last six months of 2008, industry-wide capital declined and rating agency scrutiny increased. There is an expectation that given the rate softening that has occurred over the past several quarters, the industry-wide decline in capital combined with volatile and unreceptive markets and a looming recession, will lead to a hardening of insurance and reinsurance marketplace rates, terms and conditions. It is too early to gauge the extent of hardening, if any, that will occur; however, it appears that much of the redundant capital has been wrung out of the industry, and the stage is set for firmer markets.

Both January and April, 2009, renewal rates, particularly for property catastrophes and retrocessional covers and in international markets were generally firmer compared to a year ago.

Overall, we believe that current marketplace conditions offer profit opportunities for us given our strong ratings, distribution system, reputation and expertise. We continue to employ our strategy of targeting business that offers the greatest profit potential, while maintaining balance and diversification in our overall portfolio.

## Financial Summary.

We monitor and evaluate our overall performance based upon financial results. The following table displays a summary of the consolidated net income, ratios and shareholders' equity for the periods indicated.

| (Dollars in millions)                                   | Three Months Ended<br>March 31, |                            | Percentage<br>Increase/<br>(Decrease) |
|---|---------------------------------|----------------------------|---------------------------------------|
|   | 2009                            | 2008                       |                                       |
| Gross written premiums                                  | \$ 997.8                        | \$ 877.5                   | 13.7%                                 |
| Net written premiums                                    | 970.7                           | 838.7                      | 15.7%                                 |
| <b>REVENUES:</b>  |                                 |                            |                                       |
| Premiums earned   | \$ 932.3                        | \$ 912.0                   | 2.2%                                  |
| Net investment income                                   | 68.8                            | 150.1                      | -54.2%                                |
| Net realized capital losses                             | (65.1)                          | (136.4)                    | -52.2%                                |
| Realized gain on debt repurchase                        | 78.3                            | -                          | NM                                    |
| Net derivative expense                                  | (19.7)                          | (3.8)                      | NM                                    |
| Other expense   | (5.2)                           | (5.2)                      | 0.4%                                  |
| Total revenues  | <u>989.3</u>                    | <u>916.8</u>               | 7.9%                                  |
| <b>CLAIMS AND EXPENSES:</b>                             |                                 |                            |                                       |
| Incurred losses and loss adjustment expenses            | 569.9                           | 545.4                      | 4.5%                                  |
| Commission, brokerage, taxes and fees                   | 226.0                           | 227.1                      | -0.5%                                 |
| Other underwriting expenses                             | 40.1                            | 40.2                       | -0.3%                                 |
| Interest, fees and bond issue cost amortization expense | 20.1                            | 19.8                       | 1.8%                                  |
| Total claims and expenses                               | <u>856.2</u>                    | <u>832.5</u>               | 2.8%                                  |
| INCOME BEFORE TAXES                                     | 133.1                           | 84.2                       | 58.0%                                 |
| Income tax expense                                      | 24.5                            | 6.3                        | NM                                    |
| NET INCOME  | <u>\$ 108.6</u>                 | <u>\$ 77.9</u>             | 39.3%                                 |
| <b>RATIOS:</b>  |                                 |                            |                                       |
| Loss ratio  | 61.1%                           | 59.8%                      | Point<br>Change<br><u>1.3</u>         |
| Commission and brokerage ratio                          | 24.2%                           | 24.9%                      | (0.7)                                 |
| Other underwriting expense ratio                        | 4.4%                            | 4.4%                       | -                                     |
| Combined ratio  | <u>89.7%</u>                    | <u>89.1%</u>               | <u>0.6</u>                            |
| <b>Shareholders' Equity</b>                             |                                 |                            |                                       |
| (Dollars in millions, except per share amounts)         | At<br>March 31,<br>2009         | At<br>December 31,<br>2008 | Percentage<br>Increase/<br>(Decrease) |
| Balance sheet data:                                     |                                 |                            |                                       |
| Total investments and cash                              | \$ 13,601.1                     | \$ 13,714.3                | -0.8%                                 |
| Total assets  | 16,725.0                        | 16,846.6                   | -0.7%                                 |
| Loss and loss adjustment expense reserves               | 8,775.5                         | 8,840.7                    | -0.7%                                 |
| Total debt  | 1,017.8                         | 1,179.1                    | -13.7%                                |
| Total liabilities                                       | 11,685.1                        | 11,886.2                   | -1.7%                                 |
| Shareholders' equity                                    | 5,039.9                         | 4,960.4                    | 1.6%                                  |
| Book value per share                                    | 81.89                           | 80.77                      |                                       |

(NM, not meaningful)

(Some amounts may not reconcile due to rounding.)

## Revenues.

**Premiums.** Gross written premiums increased by \$120.3 million, or 13.7%, for the three months ended March 31, 2009 compared to the three months ended March 31, 2008, reflecting an increase of \$126.0 million in our reinsurance business, partially offset by a decline of \$5.7 million in our U.S. insurance business. The increase in our reinsurance business was primarily attributable to increased rates on property business, in both the international and U.S. markets, the new crop hail quota share treaty business, expanded participation on renewal contracts and new writings as ceding companies continue to favor

reinsurers such as Everest, with strong financial ratings. The decrease in insurance premiums were primarily the result of primary casualty rates that were generally down. Net written premiums increased \$132.1 million, or 15.7%, for the three months ended March 31, 2009 compared to the three months ended March 31, 2008, primarily due to the increase in gross written premiums. Premiums earned increased \$20.3 million, or 2.2%, for the three months ended March 31, 2009 compared to the three months ended March 31, 2008 reflecting the higher net written premiums, which will be earned over the contract periods.

Net Investment Income. Net investment income decreased by 54.2% for the three months ended March 31, 2009 compared to the three months ended March 31, 2008, primarily due to net investment losses from our limited partnership investments. The limited partnership investment losses this quarter were primarily from limited partnerships that invested in non-public securities, both equity and debt, which report to us on a quarter lag. As such, these specific partnership results reflected the results incurred for the fourth quarter of last year. Net pre-tax investment income as a percentage of average invested assets was 2.0% for the three months ended March 31, 2009 compared to 4.1% for the three months ended March 31, 2008.

Net Realized Capital Losses. Net realized capital losses were \$65.1 million and \$136.4 million for the three months ended March 31, 2009 and 2008, respectively.

Net realized capital losses for the three months ended March 31, 2009 continue to reflect the influence of the global financial market credit crisis. As such, our equity security portfolio decreased \$16.9 million as a result of fair value adjustments and our fixed maturity securities decreased \$8.3 million due to other-than-temporary impairments. In addition, we recognized \$39.9 million of net realized capital losses, from the sale of fixed maturity and equity securities we owned as we reduced exposure to certain credit risks. We report changes in fair values of our equity securities as realized capital gains or losses in accordance with FAS No. 159 "The Fair Value Option for Financial Assets and Financial Liabilities – including an amendment to FASB Statement No. 115" ("FAS 159"), and we report realized losses on our fixed income portfolio from other-than-temporary impairments as realized capital losses in accordance with FAS No. 115-1, "The Meaning of Other-Than-Temporary Impairment and Its Application to Certain Investments" ("FAS 115-1").

Net realized capital losses for the three months ended March 31, 2008 included \$121.5 million from fair value adjustments on our equity securities as a result of the decrease in worldwide equity markets. In addition, we recognized \$14.0 million of net realized capital losses, principally from sales of equity securities.

Realized Gain on Debt Repurchase. On March 19, 2009, we announced the commencement of a cash tender offer for any and all of the 6.60% fixed to floating rate long term subordinated notes due 2067. Upon expiration of the tender offer, we had reduced our outstanding debt by \$161.4 million, which resulted in a pre-tax gain on debt repurchase of \$78.3 million.

Net Derivative Expense. In 2005 and prior, we sold seven equity index put options, which are outstanding. These contracts meet the definition of a derivative under FAS No. 133, "Accounting for Derivative Instruments and Hedging Activities" ("FAS 133"). We recognized net derivative expense of \$19.7 million and \$3.8 million for the three months ended March 31, 2009 and 2008, respectively. The net derivative expense represents changes in the fair value of these contracts. The increased expense for the three months ended March 31, 2009 was driven by declines in the underlying indexes and interest rates, which are the primary determinants of the contracts' fair values.

Other Expense. We recorded expense of \$5.2 million for the three months ended March 31, 2009 and 2008, which were primarily the result of fluctuations in foreign currency exchange rates over the corresponding periods.

## Claims and Expenses.

Incurred Losses and LAE. The following table presents our incurred losses and loss adjustment expenses (“LAE”) for the periods indicated.

| (Dollars in millions)     | Three Months Ended March 31, |                       |                 |                       |                   |                       |
|---------------------------|------------------------------|-----------------------|-----------------|-----------------------|-------------------|-----------------------|
|                           | Current<br>Year              | Ratio %/<br>Pt Change | Prior<br>Years  | Ratio %/<br>Pt Change | Total<br>Incurred | Ratio %/<br>Pt Change |
| <u>2009</u>               |                              |                       |                 |                       |                   |                       |
| Attritional (a)           | \$ 518.8                     | 55.7%                 | \$ 17.9         | 1.9%                  | \$ 536.7          | 57.6%                 |
| Catastrophes              | 28.9                         | 3.1%                  | 4.2             | 0.5%                  | 33.2              | 3.6%                  |
| A&E                       | -                            | 0.0%                  | -               | 0.0%                  | -                 | 0.0%                  |
| Total segment             | <u>\$ 547.7</u>              | <u>58.8%</u>          | <u>\$ 22.2</u>  | <u>2.4%</u>           | <u>\$ 569.9</u>   | <u>61.1%</u>          |
| <u>2008</u>               |                              |                       |                 |                       |                   |                       |
| Attritional (a)           | \$ 503.6                     | 55.2%                 | \$ 20.9         | 2.3%                  | \$ 524.5          | 57.5%                 |
| Catastrophes              | 15.7                         | 1.7%                  | 5.1             | 0.6%                  | 20.8              | 2.3%                  |
| A&E                       | -                            | 0.0%                  | -               | 0.0%                  | -                 | 0.0%                  |
| Total segment             | <u>\$ 519.3</u>              | <u>56.9%</u>          | <u>\$ 26.0</u>  | <u>2.9%</u>           | <u>\$ 545.4</u>   | <u>59.8%</u>          |
| <u>Variance 2009/2008</u> |                              |                       |                 |                       |                   |                       |
| Attritional (a)           | \$ 15.2                      | 0.4 pts               | \$ (3.0)        | (0.4) pts             | \$ 12.2           | 0.1 pts               |
| Catastrophes              | 13.2                         | 1.4 pts               | (0.9)           | (0.1) pts             | 12.4              | 1.3 pts               |
| A&E                       | -                            | - pts                 | -               | - pts                 | -                 | - pts                 |
| Total segment             | <u>\$ 28.4</u>               | <u>1.9 pts</u>        | <u>\$ (3.8)</u> | <u>(0.5) pts</u>      | <u>\$ 24.6</u>    | <u>1.3 pts</u>        |

(a) Attritional losses exclude catastrophe and A&E losses.  
(Some amounts may not reconcile due to rounding.)

Incurred losses and LAE were higher by \$24.6 million, or 4.5%, for the three months ended March 31, 2009 compared to the same period in 2008. Attritional losses were slightly higher in 2009, which were largely the result of slightly higher 2009 premiums earned. Catastrophe losses, at \$33.2 million for the three months ended March 31, 2009, were \$12.4 million higher than the same period in 2008. The 2009 current year catastrophes primarily consisted of the European floods and Victoria brushfire compared to the 2008 catastrophes of the China snowstorm and winterstorm Emma.

Commission, Brokerage, Taxes and Fees. Commission, brokerage, taxes and fees decreased by \$1.1 million, or 0.5%, for the three months ended March 31, 2009 compared to the same period in 2008. The change in this directly variable expense was influenced by the change in the mix of business.

Other Underwriting Expenses. Other underwriting expenses for the three months ended March 31, 2009 were \$40.1 million compared to \$40.2 million for the three months ended March 31, 2008. Included in other underwriting expenses were corporate expenses, which are expenses that are not allocated to segments, of \$3.8 million and \$2.8 million for the three months ended March 31, 2009 and 2008, respectively.

Interest, Fees and Bond Issue Cost Amortization Expense. Interest and other expense was \$20.1 million and \$19.8 million for the three months ended March 31, 2009 and 2008, respectively.

Income Tax Expense. Our income tax was an expense of \$24.5 million for the three months ended March 31, 2009, principally as a result of the realized gain on the repurchase of debt. We had income tax expense of \$6.3 million for the three months ended March 31, 2008, primarily due to income from operations, partially offset by net realized capital losses and tax-preferenced investment income. Our income tax is primarily a function of the statutory tax rates and corresponding pre-tax income in the jurisdictions where we operate, coupled with the impact from tax-preferenced investment income. Variations in our effective tax rate generally result from changes in the relative levels of pre-tax income among jurisdictions with different tax rates.

## Net Income.

Our net income was \$108.6 million for the three months ended March 31, 2009 compared to \$77.9 million for the three months ended March 31, 2008. This increase was primarily the result of the gain on debt

repurchase and lower net realized losses, partially offset by higher net derivative expense and higher tax expense in the first quarter of 2009 compared to the same period in 2008.

**Ratios.**

Our combined ratio increased by 0.6 points to 89.7% for the three months ended March 31, 2009 compared to 89.1% for the three months ended March 31, 2008. The loss ratio component increased 1.3 points for the three months ended March 31, 2009, principally due to the increase in current year catastrophe losses. The commission and brokerage ratio component decreased by 0.7 points for the three months ended March 31, 2009 compared to 2008, while the other underwriting expense ratio component remained flat.

**Shareholders' Equity.**

Shareholders' equity increased by \$79.5 million to \$5,039.9 million at March 31, 2009 from \$4,960.4 million at December 31, 2008, principally as a result of \$108.6 million of net income, \$46.9 million of unrealized appreciation on investments, net of tax, and share-based compensation transactions of \$3.3 million, partially offset by \$49.7 million of foreign currency translation adjustments and \$29.5 million of shareholder dividends.

**Consolidated Investment Results**

**Net Investment Income.**

Net investment income decreased 54.2% to \$68.8 million for the three months ended March 31, 2009 from \$150.1 million for the three months ended March 31, 2008, primarily due to losses incurred on our limited partnership investments. The limited partnership investment losses this quarter were primarily from limited partnerships that invested in non-public securities, both equity and debt, which report to us on a quarter lag. As such, these specific partnership results reflected the results incurred for the fourth quarter of last year.

The following table shows the components of net investment income for the periods indicated:

|                                     | Three Months Ended<br>March 31, |          |
|-------------------------------------|---------------------------------|----------|
|                                     | 2009                            | 2008     |
| (Dollars in millions)               |                                 |          |
| Fixed maturities                    | \$ 144.6                        | \$ 128.4 |
| Equity securities                   | 0.7                             | 5.5      |
| Short-term investments and cash     | 3.6                             | 22.6     |
| Other invested assets               |                                 |          |
| Limited partnerships                | (72.9)                          | (5.1)    |
| Other                               | 0.8                             | 1.3      |
| Total gross investment income       | 76.7                            | 152.7    |
| Interest credited and other expense | (8.0)                           | (2.6)    |
| Total net investment income         | \$ 68.8                         | \$ 150.1 |

(Some amounts may not reconcile due to rounding.)

The following tables show a comparison of various investment yields for the periods indicated:

|  | At<br>March 31,<br>2009 | At<br>December 31,<br>2008 |
|--|-------------------------|----------------------------|
| Imbedded pre-tax yield of cash and invested assets   | 4.2%                    | 4.5%                       |
| Imbedded after-tax yield of cash and invested assets | 3.7%                    | 4.0%                       |

|  | Three Months Ended<br>March 31, |      |
|--|---------------------------------|------|
|  | 2009                            | 2008 |
| Annualized pre-tax yield on average cash and invested assets   | 2.0%                            | 4.1% |
| Annualized after-tax yield on average cash and invested assets | 1.9%                            | 3.4% |

### Net Realized Capital Losses.

The following table presents the composition of our net realized capital losses for the periods indicated:

| (Dollars in millions)                              | Three Months Ended March 31, |                   |                |
|--|------------------------------|-------------------|----------------|
|  | 2009                         | 2008              | Variance       |
| <u>(Losses) gains from sales:</u>                  |                              |                   |                |
| Fixed maturity securities, market value            |                              |                   |                |
| Gains  | \$ 2.7                       | \$ 1.4            | \$ 1.3         |
| Losses   | (42.3)                       | (1.5)             | (40.8)         |
| Total  | <u>(39.6)</u>                | <u>(0.1)</u>      | <u>(39.5)</u>  |
| Fixed maturity securities, fair value              |                              |                   |                |
| Gains  | 0.2                          | -                 | 0.2            |
| Losses   | (0.1)                        | -                 | (0.1)          |
| Total  | <u>0.1</u>                   | <u>-</u>          | <u>0.1</u>     |
| Equity securities, fair value                      |                              |                   |                |
| Gains  | 0.2                          | 2.7               | (2.5)          |
| Losses   | (0.7)                        | (16.6)            | 15.9           |
| Total  | <u>(0.4)</u>                 | <u>(13.9)</u>     | <u>13.5</u>    |
| Total net realized capital losses from sales       |                              |                   |                |
| Gains  | 3.1                          | 4.1               | (1.0)          |
| Losses   | (43.0)                       | (18.1)            | (24.9)         |
| Total  | <u>(39.9)</u>                | <u>(14.0)</u>     | <u>(25.9)</u>  |
| <u>Other-than-temporary impairments:</u>           | (8.3)                        | (0.9)             | (7.4)          |
| <u>(Losses) gains from fair value adjustments:</u> |                              |                   |                |
| Equity securities, fair value                      | <u>(16.9)</u>                | <u>(121.5)</u>    | <u>104.6</u>   |
| Total  | <u>(16.9)</u>                | <u>(121.5)</u>    | <u>104.6</u>   |
| Total net realized capital (losses) gains          | <u>\$ (65.1)</u>             | <u>\$ (136.4)</u> | <u>\$ 71.3</u> |

(Some amounts may not reconcile due to rounding.)

We recorded \$16.9 million and \$121.5 million in net realized capital losses due to fair value re-measurements on equity securities for the three months ended March 31, 2009 and 2008, respectively. In addition, we recorded other-than-temporary impairments of \$8.3 million and \$0.9 million for the three months ended March 31, 2009 and 2008, respectively. These net realized capital losses were influenced by the continuing financial liquidity crisis and related global economic downturn. This continues to impact both the equity and credit markets. Equities are trading at multiyear lows, spreads on fixed maturity securities have been at unprecedented levels and many securities have been downgraded by rating agencies.

### Segment Results.

Through our subsidiaries, we operate in five segments: U.S. Reinsurance, U.S. Insurance, Specialty Underwriting, International and Bermuda. The U.S. Reinsurance operation writes property and casualty reinsurance, on both a treaty and facultative basis, through reinsurance brokers, as well as directly with ceding companies within the U.S. The U.S. Insurance operation writes property and casualty insurance primarily through general agents and surplus lines brokers within the U.S. The Specialty Underwriting operation writes accident and health (“A&H”), marine, aviation and surety business within the U.S. and worldwide through brokers and directly with ceding companies. The International operation writes non-U.S. property and casualty reinsurance through Everest Re’s branches in Canada and Singapore and offices in Miami and New Jersey. The Bermuda operation provides reinsurance and insurance to worldwide property and casualty markets and reinsurance to life insurers through brokers and directly with ceding companies from its Bermuda office and reinsurance to the United Kingdom and European markets through its UK branch.

These segments are managed in a coordinated fashion with respect to pricing, risk management, control of aggregate catastrophe exposures, capital, investments and support operations. Management generally monitors and evaluates the financial performance of these operating segments based upon their underwriting results.

Underwriting results include earned premium less losses and LAE incurred, commission and brokerage expenses and other underwriting expenses. We measure our underwriting results using ratios, in particular loss, commission and brokerage and other underwriting expense ratios, which respectively, divide incurred losses, commissions and brokerage and other underwriting expenses by premiums earned. We utilize inter-affiliate reinsurance, although such reinsurance does not materially impact segment results, as business is generally reported within the segment in which the business was first produced.

Our loss and LAE reserves are our best estimate of our ultimate liability for unpaid claims. We re-evaluate our estimates on an ongoing basis, including all prior period reserves, taking into consideration all available information and, in particular, recently reported loss claim experience and trends related to prior periods. Such re-evaluations are recorded in incurred losses in the period in which re-evaluation is made.

The following discusses the underwriting results for each of our segments for the periods indicated:

### U.S. Reinsurance.

The following table presents the underwriting results and ratios for the U.S. Reinsurance segment for the periods indicated.

| (Dollars in millions)            | Three Months Ended March 31, |                |                |                  |
|----------------------------------|------------------------------|----------------|----------------|------------------|
|                                  | 2009                         | 2008           | Variance       | % Change         |
| Gross written premiums           | \$ 264.3                     | \$ 233.7       | \$ 30.6        | 13.1%            |
| Net written premiums             | 260.5                        | 229.9          | 30.6           | 13.3%            |
| Premiums earned                  | \$ 263.2                     | \$ 289.3       | \$ (26.1)      | -9.0%            |
| Incurred losses and LAE          | 137.8                        | 176.9          | (39.1)         | -22.1%           |
| Commission and brokerage         | 65.3                         | 80.3           | (14.9)         | -18.6%           |
| Other underwriting expenses      | 7.6                          | 8.8            | (1.2)          | -14.2%           |
| Underwriting gain                | <u>\$ 52.5</u>               | <u>\$ 23.3</u> | <u>\$ 29.1</u> | <u>124.8%</u>    |
|                                  |                              |                |                | <u>Point Chg</u> |
| Loss ratio                       | 52.4%                        | 61.1%          |                | (8.7)            |
| Commission and brokerage ratio   | 24.8%                        | 27.7%          |                | (2.9)            |
| Other underwriting expense ratio | 2.9%                         | 3.1%           |                | (0.2)            |
| Combined ratio                   | <u>80.1%</u>                 | <u>91.9%</u>   |                | <u>(11.8)</u>    |

(Some amounts may not reconcile due to rounding.)

**Premiums.** Gross written premiums increased by 13.1% to \$264.3 million for the three months ended March 31, 2009 from \$233.7 million for the three months ended March 31, 2008, primarily due to an \$18.0 million (26.1%) increase in treaty casualty volume and \$17.3 million from several new crop hail quota share treaties, partially offset by a \$6.1 million (22.4%) decrease in facultative volume. Our treaty casualty premiums were higher as we are writing more quota share business, which we believe is driven by the capital concerns of our ceding company customers looking for broader reinsurance support. The crop hail business is a new line for us and we anticipate similar volume in each of the remaining quarters of 2009. Net written premiums increased 13.3% to \$260.5 million for the three months ended March 31, 2009 compared to \$229.9 million for the three months ended March 31, 2008, primarily due to the increase in gross written premiums. Premiums earned decreased 9.0% to \$263.2 million for the three months ended March 31, 2009 compared to \$289.3 million for the three months ended March 31, 2008. The change in premiums earned relative to net written premiums is the result of timing; premiums are earned ratably over the coverage period whereas written premiums are recorded at the initiation of the coverage period.

Incurred Losses and LAE. The following tables present the incurred losses and LAE for the U.S. Reinsurance segment for the periods indicated.

| (Dollars in millions)     | Three Months Ended March 31, |                       |                  |                       |                  |                       |
|---------------------------|------------------------------|-----------------------|------------------|-----------------------|------------------|-----------------------|
|                           | Current Year                 | Ratio %/<br>Pt Change | Prior Years      | Ratio %/<br>Pt Change | Total Incurred   | Ratio %/<br>Pt Change |
| <b>2009</b>               |                              |                       |                  |                       |                  |                       |
| Attritional               | \$ 125.5                     | 47.7%                 | \$ 12.0          | 4.6%                  | \$ 137.6         | 52.3%                 |
| Catastrophes              | -                            | 0.0%                  | 0.2              | 0.1%                  | 0.2              | 0.1%                  |
| A&E                       | -                            | 0.0%                  | -                | 0.0%                  | -                | 0.0%                  |
| Total segment             | <u>\$ 125.5</u>              | <u>47.7%</u>          | <u>\$ 12.2</u>   | <u>4.7%</u>           | <u>\$ 137.8</u>  | <u>52.4%</u>          |
| <b>2008</b>               |                              |                       |                  |                       |                  |                       |
| Attritional               | \$ 136.5                     | 47.2%                 | \$ 34.7          | 12.0%                 | \$ 171.2         | 59.2%                 |
| Catastrophes              | -                            | 0.0%                  | 5.7              | 2.0%                  | 5.7              | 2.0%                  |
| A&E                       | -                            | 0.0%                  | -                | 0.0%                  | -                | 0.0%                  |
| Total segment             | <u>\$ 136.5</u>              | <u>47.2%</u>          | <u>\$ 40.3</u>   | <u>13.9%</u>          | <u>\$ 176.9</u>  | <u>61.1%</u>          |
| <b>Variance 2009/2008</b> |                              |                       |                  |                       |                  |                       |
| Attritional               | \$ (11.0)                    | 0.5 pts               | \$ (22.6)        | (7.4) pts             | \$ (33.6)        | (6.9) pts             |
| Catastrophes              | -                            | - pts                 | (5.4)            | (1.9) pts             | (5.4)            | (1.9) pts             |
| A&E                       | -                            | - pts                 | -                | - pts                 | -                | - pts                 |
| Total segment             | <u>\$ (11.0)</u>             | <u>0.5 pts</u>        | <u>\$ (28.1)</u> | <u>(9.2) pts</u>      | <u>\$ (39.1)</u> | <u>(8.7) pts</u>      |

(Some amounts may not reconcile due to rounding.)

Incurred losses were \$39.1 million (8.7 points) lower for the three months ended March 31, 2009 compared to the three months ended March 31, 2008, primarily due to a decrease in prior years attritional and catastrophe losses of \$28.1 million (9.2 points) and the decrease in current year attritional losses of \$11.0 million, principally due to the decrease in premiums earned.

Segment Expenses. Commission and brokerage expenses decreased by 18.6% to \$65.3 million for the three months ended March 31, 2009 from \$80.3 million for the three months ended March 31, 2008, primarily due to the decrease in premiums earned in conjunction with the change in the mix and type of business written. Segment other underwriting expenses for the three months ended March 31, 2009 decreased slightly to \$7.6 million from \$8.8 million for the three months ended March 31, 2008, primarily due to the decrease in allocations of share-based compensation from corporate.

### U.S. Insurance.

The following table presents the underwriting results and ratios for the U.S. Insurance segment for the periods indicated.

| (Dollars in millions)            | Three Months Ended March 31, |                |                 |                  |
|----------------------------------|------------------------------|----------------|-----------------|------------------|
|                                  | 2009                         | 2008           | Variance        | % Change         |
| Gross written premiums           | \$ 204.7                     | \$ 210.5       | \$ (5.7)        | -2.7%            |
| Net written premiums             | 182.4                        | 176.6          | 5.8             | 3.3%             |
| Premiums earned                  | \$ 166.0                     | \$ 194.5       | \$ (28.5)       | -14.6%           |
| Incurred losses and LAE          | 116.0                        | 133.9          | (17.9)          | -13.4%           |
| Commission and brokerage         | 31.5                         | 35.4           | (3.8)           | -10.9%           |
| Other underwriting expenses      | 17.3                         | 14.3           | 2.9             | 20.5%            |
| Underwriting gain                | <u>\$ 1.2</u>                | <u>\$ 10.9</u> | <u>\$ (9.7)</u> | <u>-89.0%</u>    |
|                                  |                              |                |                 | <u>Point Chg</u> |
| Loss ratio                       | 69.9%                        | 68.9%          |                 | 1.0              |
| Commission and brokerage ratio   | 19.0%                        | 18.2%          |                 | 0.8              |
| Other underwriting expense ratio | 10.4%                        | 7.3%           |                 | 3.1              |
| Combined ratio                   | <u>99.3%</u>                 | <u>94.4%</u>   |                 | <u>4.9</u>       |

(Some amounts may not reconcile due to rounding.)

**Premiums.** Gross written premiums decreased by 2.7% to \$204.7 million for the three months ended March 31, 2009 from \$210.5 million for the three months ended March 31, 2008. Rates on primary casualty were down between zero and five percent and the rate increases anticipated for California workers' compensation have not materialized. Net written premiums increased by 3.3% to \$182.4 million for the three months ended March 31, 2009 compared to \$176.6 million for the three months ended March 31, 2008. The increase in net written premiums was primarily due to the change in reinsurance cessions which vary program by program. Premiums earned decreased 14.6% to \$166.0 million for the three months ended March 31, 2009 from \$194.5 million for the three months ended March 31, 2008. The change in premiums earned relative to net written premiums is the result of timing; premiums are earned ratably over the coverage period whereas written premiums are recorded at the initiation of the coverage period.

**Incurred Losses and LAE.** The following tables present the incurred losses and LAE for the U.S. Insurance segment for the periods indicated.

|                           | Three Months Ended March 31, |                       |             |                       |                |                       |
|---------------------------|------------------------------|-----------------------|-------------|-----------------------|----------------|-----------------------|
|                           | Current Year                 | Ratio %/<br>Pt Change | Prior Years | Ratio %/<br>Pt Change | Total Incurred | Ratio %/<br>Pt Change |
| (Dollars in millions)     |                              |                       |             |                       |                |                       |
| <b>2009</b>               |                              |                       |             |                       |                |                       |
| Attritional               | \$ 116.0                     | 69.9%                 | \$ -        | 0.0%                  | \$ 116.0       | 69.9%                 |
| Catastrophes              | -                            | 0.0%                  | -           | 0.0%                  | -              | 0.0%                  |
| Total segment             | \$ 116.0                     | 69.9%                 | \$ -        | 0.0%                  | \$ 116.0       | 69.9%                 |
| <b>2008</b>               |                              |                       |             |                       |                |                       |
| Attritional               | \$ 131.6                     | 67.7%                 | \$ 2.3      | 1.2%                  | \$ 133.9       | 68.9%                 |
| Catastrophes              | -                            | 0.0%                  | -           | 0.0%                  | -              | 0.0%                  |
| Total segment             | \$ 131.6                     | 67.7%                 | \$ 2.3      | 1.2%                  | \$ 133.9       | 68.9%                 |
| <b>Variance 2009/2008</b> |                              |                       |             |                       |                |                       |
| Attritional               | \$ (15.6)                    | 2.2 pts               | \$ (2.3)    | (1.2) pts             | \$ (17.9)      | 1.0 pts               |
| Catastrophes              | -                            | - pts                 | -           | - pts                 | -              | - pts                 |
| Total segment             | \$ (15.6)                    | 2.2 pts               | \$ (2.3)    | (1.2) pts             | \$ (17.9)      | 1.0 pts               |

(Some amounts may not reconcile due to rounding.)

Incurred losses and LAE decreased by 13.4% to \$116.0 million for the three months ended March 31, 2009 from \$133.9 million for the three months ended March 31, 2008, primarily driven by the 14.6% decrease in premiums earned and the absence of any prior years loss development in the first quarter of 2009.

**Segment Expenses.** Commission and brokerage decreased by 10.9% to \$31.5 million for the three months ended March 31, 2009 from \$35.4 million for the three months ended March 31, 2008, principally due to the decrease in premiums earned in conjunction with the change in the mix of business written and the reinsurance purchased on the business written. Segment other underwriting expenses for the three months ended March 31, 2009 increased to \$17.3 million as compared to \$14.3 million for the three months ended March 31, 2008, primarily due to compensation costs associated with increased staff.

### Specialty Underwriting.

The following table presents the underwriting results and ratios for the Specialty Underwriting segment for the periods indicated.

| (Dollars in millions)            | Three Months Ended March 31, |         |          |           |
|----------------------------------|------------------------------|---------|----------|-----------|
|                                  | 2009                         | 2008    | Variance | % Change  |
| Gross written premiums           | \$ 58.9                      | \$ 54.9 | \$ 4.0   | 7.3%      |
| Net written premiums             | 58.0                         | 54.3    | 3.7      | 6.8%      |
| Premiums earned                  | \$ 63.1                      | \$ 52.3 | \$ 10.8  | 20.7%     |
| Incurred losses and LAE          | 40.0                         | 28.3    | 11.7     | 41.2%     |
| Commission and brokerage         | 18.6                         | 16.4    | 2.2      | 13.3%     |
| Other underwriting expenses      | 1.8                          | 2.4     | (0.6)    | -23.5%    |
| Underwriting gain                | \$ 2.7                       | \$ 5.1  | \$ (2.5) | -48.0%    |
|                                  |                              |         |          | Point Chg |
| Loss ratio                       | 63.4%                        | 54.2%   |          | 9.2       |
| Commission and brokerage ratio   | 29.4%                        | 31.4%   |          | (2.0)     |
| Other underwriting expense ratio | 3.0%                         | 4.6%    |          | (1.6)     |
| Combined ratio                   | 95.8%                        | 90.2%   |          | 5.6       |

(Some amounts may not reconcile due to rounding.)

**Premiums.** Gross written premiums increased by 7.3% to \$58.9 million for the three months ended March 31, 2009 from \$54.9 million for the three months ended March 31, 2008, primarily due to a \$3.8 million increase in marine premiums. Net written premiums increased 6.8% to \$58.0 million for the three months ended March 31, 2009 compared to \$54.3 million for the three months ended March 31, 2008, as a result of the increase in gross written premiums. Premiums earned increased 20.7% to \$63.1 million for the three months ended March 31, 2009 compared to \$52.3 million for the three months ended March 31, 2008. The change in premiums earned relative to net written premiums is the result of timing; premiums are earned ratably over the coverage period whereas written premiums are recorded at the initiation of the coverage period.

**Incurred Losses and LAE.** The following tables present the incurred losses and LAE for the Specialty Underwriting segment for the periods indicated.

| (Dollars in millions)     | Three Months Ended March 31, |                       |             |                       |                |                       |
|---------------------------|------------------------------|-----------------------|-------------|-----------------------|----------------|-----------------------|
|                           | Current Year                 | Ratio %/<br>Pt Change | Prior Years | Ratio %/<br>Pt Change | Total Incurred | Ratio %/<br>Pt Change |
| <b>2009</b>               |                              |                       |             |                       |                |                       |
| Attritional               | \$ 37.7                      | 59.7%                 | \$ -        | 0.0%                  | \$ 37.7        | 59.7%                 |
| Catastrophes              | -                            | 0.0%                  | 2.3         | 3.7%                  | 2.3            | 3.7%                  |
| Total segment             | \$ 37.7                      | 59.7%                 | \$ 2.3      | 3.7%                  | \$ 40.0        | 63.4%                 |
| <b>2008</b>               |                              |                       |             |                       |                |                       |
| Attritional               | \$ 29.7                      | 56.8%                 | \$ (3.0)    | -5.7%                 | \$ 26.7        | 51.0%                 |
| Catastrophes              | -                            | 0.0%                  | 1.7         | 3.2%                  | 1.7            | 3.2%                  |
| Total segment             | \$ 29.7                      | 56.8%                 | \$ (1.3)    | -2.6%                 | \$ 28.3        | 54.2%                 |
| <b>Variance 2009/2008</b> |                              |                       |             |                       |                |                       |
| Attritional               | \$ 8.0                       | 3.0 pts               | \$ 3.0      | 5.7 pts               | \$ 11.0        | 8.7 pts               |
| Catastrophes              | -                            | - pts                 | 0.7         | 0.5 pts               | 0.7            | 0.5 pts               |
| Total segment             | \$ 8.0                       | 2.9 pts               | \$ 3.7      | 6.3 pts               | \$ 11.7        | 9.2 pts               |

(Some amounts may not reconcile due to rounding.)

Incurred losses and LAE increased to \$40.0 million for the three months ended March 31, 2009 compared to \$28.3 million for the three months ended March 31, 2008, as the result of the increase in current year attritional losses and more development of prior years' losses in 2009 compared to 2008.

**Segment Expenses.** Commission and brokerage increased 13.3% to \$18.6 million for the three months ended March 31, 2009 from \$16.4 million for the three months ended March 31, 2008, commensurate with

the increase in premiums earned. Segment other underwriting expenses decreased to \$1.8 million for the three months ended March 31, 2009 from \$2.4 million for the three months ended March 31, 2008, primarily as a result of the decrease in allocations of share-based compensation from corporate.

### International.

The following table presents the underwriting results and ratios for the International segment for the periods indicated.

| (Dollars in millions)            | Three Months Ended March 31, |          |          |           |
|----------------------------------|------------------------------|----------|----------|-----------|
|                                  | 2009                         | 2008     | Variance | % Change  |
| Gross written premiums           | \$ 250.8                     | \$ 186.4 | \$ 64.4  | 34.5%     |
| Net written premiums             | 250.7                        | 186.3    | 64.4     | 34.6%     |
| Premiums earned                  | \$ 254.5                     | \$ 191.0 | \$ 63.5  | 33.3%     |
| Incurred losses and LAE          | 155.3                        | 109.7    | 45.6     | 41.5%     |
| Commission and brokerage         | 66.3                         | 46.3     | 20.0     | 43.2%     |
| Other underwriting expenses      | 4.6                          | 5.1      | (0.4)    | -8.6%     |
| Underwriting gain                | \$ 28.2                      | \$ 29.9  | \$ (1.6) | -5.5%     |
|                                  |                              |          |          | Point Chg |
| Loss ratio                       | 61.0%                        | 57.5%    |          | 3.5       |
| Commission and brokerage ratio   | 26.1%                        | 24.3%    |          | 1.8       |
| Other underwriting expense ratio | 1.8%                         | 2.6%     |          | (0.8)     |
| Combined ratio                   | 88.9%                        | 84.4%    |          | 4.5       |

(Some amounts may not reconcile due to rounding.)

**Premiums.** Gross written premiums increased by 34.5% to \$250.8 million for the three months ended March 31, 2009 from \$186.4 million for the three months ended March 31, 2008. As a result of our strong financial strength ratings, we continue to see increased participations on treaties in most regions, new business writings and preferential signings, including preferential terms and conditions. In addition, rates, in some markets, also contributed to the increased written premiums. Premiums written through the Brazil, Miami and New Jersey offices increased by \$53.7 million (46.3%) and the Asian branch increased by \$14.4 million (49.5%), while premiums for the Canadian branch decreased by \$3.6 million (8.8%). Net written premiums increased by 34.6% to \$250.7 million for the three months ended March 31, 2009 compared to \$186.3 million for the three months ended March 31, 2008, principally as a result of the increase in gross written premiums. Premiums earned increased 33.3% to \$254.5 million for the three months ended March 31, 2009 compared to \$191.0 million for the three months ended March 31, 2008, consistent with the increase in net written premiums.

**Incurred Losses and LAE.** The following tables present the incurred losses and LAE for the International segment for the periods indicated.

| (Dollars in millions)     | Three Months Ended March 31, |                       |             |                       |                |                       |
|---------------------------|------------------------------|-----------------------|-------------|-----------------------|----------------|-----------------------|
|                           | Current Year                 | Ratio %/<br>Pt Change | Prior Years | Ratio %/<br>Pt Change | Total Incurred | Ratio %/<br>Pt Change |
| <b>2009</b>               |                              |                       |             |                       |                |                       |
| Attritional               | \$ 137.5                     | 54.0%                 | \$ 0.9      | 0.4%                  | \$ 138.4       | 54.4%                 |
| Catastrophes              | 16.2                         | 6.4%                  | 0.8         | 0.3%                  | 17.0           | 6.7%                  |
| Total segment             | \$ 153.7                     | 60.4%                 | \$ 1.7      | 0.7%                  | \$ 155.3       | 61.0%                 |
| <b>2008</b>               |                              |                       |             |                       |                |                       |
| Attritional               | \$ 102.0                     | 53.4%                 | \$ (3.0)    | -1.6%                 | \$ 98.9        | 51.8%                 |
| Catastrophes              | 8.0                          | 4.2%                  | 2.8         | 1.5%                  | 10.8           | 5.7%                  |
| Total segment             | \$ 110.0                     | 57.6%                 | \$ (0.2)    | -0.1%                 | \$ 109.7       | 57.5%                 |
| <b>Variance 2009/2008</b> |                              |                       |             |                       |                |                       |
| Attritional               | \$ 35.5                      | 0.6 pts               | \$ 3.9      | 2.0 pts               | \$ 39.4        | 2.6 pts               |
| Catastrophes              | 8.2                          | 2.2 pts               | (2.1)       | (1.2) pts             | 6.1            | 1.0 pts               |
| Total segment             | \$ 43.7                      | 2.8 pts               | \$ 1.9      | 0.8 pts               | \$ 45.6        | 3.5 pts               |

(Some amounts may not reconcile due to rounding.)

Incurring losses and LAE increased to \$155.3 million for the three months ended March 31, 2009 compared to \$109.7 million for the three months ended March 31, 2008. The segment loss ratio increased by 3.5 points for the three months ended March 31, 2009 compared to the three months ended March 31, 2008 due to higher current year catastrophe losses from the Victoria bushfire and increased development on prior years' reserves, period over period.

**Segment Expenses.** Commission and brokerage increased 43.2% to \$66.3 million for the three months ended March 31, 2009 from \$46.3 million for the three months ended March 31, 2008. The increase was principally due to the growth in premiums earned in conjunction with the blend of business mix. Segment other underwriting expenses for the three months ended March 31, 2009 decreased to \$4.6 million compared to \$5.1 million for the three months ended March 31, 2008, as a result of a decrease in allocations of share-based compensation from corporate.

**Bermuda.**

The following table presents the underwriting results and ratios for the Bermuda segment for the periods indicated.

| (Dollars in millions)            | Three Months Ended March 31, |          |           |                  |
|----------------------------------|------------------------------|----------|-----------|------------------|
|                                  | 2009                         | 2008     | Variance  | % Change         |
| Gross written premiums           | \$ 219.1                     | \$ 192.0 | \$ 27.0   | 14.1%            |
| Net written premiums             | 219.1                        | 191.6    | 27.5      | 14.3%            |
| Premiums earned                  | \$ 185.5                     | \$ 184.9 | \$ 0.5    | 0.3%             |
| Incurring losses and LAE         | 120.7                        | 96.5     | 24.3      | 25.2%            |
| Commission and brokerage         | 44.3                         | 48.8     | (4.5)     | -9.3%            |
| Other underwriting expenses      | 5.0                          | 6.8      | (1.7)     | -25.6%           |
| Underwriting gain                | \$ 15.4                      | \$ 32.9  | \$ (17.4) | -53.0%           |
|                                  |                              |          |           | <b>Point Chg</b> |
| Loss ratio                       | 65.1%                        | 52.2%    |           | 12.9             |
| Commission and brokerage ratio   | 23.9%                        | 26.4%    |           | (2.5)            |
| Other underwriting expense ratio | 2.7%                         | 3.6%     |           | (0.9)            |
| Combined ratio                   | 91.7%                        | 82.2%    |           | 9.5              |

(Some amounts may not reconcile due to rounding.)

**Premiums.** Gross written premiums increased 14.1% to \$219.1 million for the three months ended March 31, 2009 compared to \$192.0 million for the three months ended March 31, 2008. Premiums written out of the Bermuda home office increased \$12.5 million, or 15.8%, and premiums written out of the U.K. branch increased \$14.6 million, or 12.9%, period over period. Net written premiums increased 14.3% to \$219.1 million for the three months ended March 31, 2009 compared to \$191.6 million for the three months ended March 31, 2008, in line with the increase in gross written premiums. Premiums earned increased 0.3% to \$185.5 million for the three months ended March 31, 2009 compared to \$184.9 million for the three months ended March 31, 2008. The change in premiums earned relative to net written premiums is the result of timing; premiums are earned ratably over the coverage period whereas written premiums are reflected at the initiation of the coverage period.

Incurred Losses and LAE. The following tables present the incurred losses and LAE for the Bermuda segment for the periods indicated.

| (Dollars in millions)     | Three Months Ended March 31, |                       |                  |                       |                 |                       |
|---------------------------|------------------------------|-----------------------|------------------|-----------------------|-----------------|-----------------------|
|                           | Current Year                 | Ratio %/<br>Pt Change | Prior Years      | Ratio %/<br>Pt Change | Total Incurred  | Ratio %/<br>Pt Change |
| <b>2009</b>               |                              |                       |                  |                       |                 |                       |
| Attritional               | \$ 102.1                     | 55.0%                 | \$ 5.0           | 2.7%                  | \$ 107.1        | 57.7%                 |
| Catastrophes              | 12.7                         | 6.9%                  | 0.9              | 0.5%                  | 13.7            | 7.4%                  |
| A&E                       | -                            | 0.0%                  | -                | 0.0%                  | -               | 0.0%                  |
| Total segment             | <u>\$ 114.8</u>              | <u>61.9%</u>          | <u>\$ 5.9</u>    | <u>3.2%</u>           | <u>\$ 120.7</u> | <u>65.1%</u>          |
| <b>2008</b>               |                              |                       |                  |                       |                 |                       |
| Attritional               | \$ 103.8                     | 56.1%                 | \$ (10.0)        | -5.4%                 | \$ 93.8         | 50.7%                 |
| Catastrophes              | 7.7                          | 4.2%                  | (5.0)            | -2.7%                 | 2.7             | 1.4%                  |
| A&E                       | -                            | 0.0%                  | -                | 0.0%                  | -               | 0.0%                  |
| Total segment             | <u>\$ 111.5</u>              | <u>60.3%</u>          | <u>\$ (15.1)</u> | <u>-8.2%</u>          | <u>\$ 96.5</u>  | <u>52.2%</u>          |
| <b>Variance 2009/2008</b> |                              |                       |                  |                       |                 |                       |
| Attritional               | \$ (1.8)                     | (1.1) pts             | \$ 15.0          | 8.1 pts               | \$ 13.3         | 7.0 pts               |
| Catastrophes              | 5.0                          | 2.7 pts               | 5.9              | 3.2 pts               | 11.0            | 5.9 pts               |
| A&E                       | -                            | - pts                 | -                | - pts                 | -               | - pts                 |
| Total segment             | <u>\$ 3.3</u>                | <u>1.6 pts</u>        | <u>\$ 21.0</u>   | <u>11.4 pts</u>       | <u>\$ 24.3</u>  | <u>12.9 pts</u>       |

(Some amounts may not reconcile due to rounding.)

Incurred losses and LAE increased 25.2% to \$120.7 million for the three months ended March 31, 2009 compared to \$96.5 million for the three months ended March 31, 2008. The principal drivers of the increase were the 8.1 point increase in prior years attritional losses and the 3.2 point increase in prior years catastrophes, period over period. The 2009 current year catastrophes were the result of losses from the European floods.

Segment Expenses. Commission and brokerage decreased 9.3% to \$44.3 million for the three months ended March 31, 2009 from \$48.8 million for the three months ended March 31, 2008, principally as a result of the change in the business mix. Segment other underwriting expenses for the three months ended March 31, 2009 decreased to \$5.0 million compared to \$6.8 million for the three months ended March 31, 2008, as the result of decreased allocations of share-based compensation from corporate.

## FINANCIAL CONDITION

Cash and Invested Assets. Aggregate invested assets, including cash and short-term investments, were \$13,601.1 million at March 31, 2009, a decrease of \$113.2 million, compared to \$13,714.3 million at December 31, 2008. This decrease was primarily the result of \$136.1 million in foreign exchange losses on our portfolio securities and cash, \$83.0 million in debt repurchase, \$39.9 million of net realized capital losses on sales, \$29.5 million paid out in dividends to shareholders, a \$17.0 million decline due to fair value adjustments and \$8.3 million of other-than-temporary impairments, partially offset by \$180.5 million of cash flows from operations and \$46.9 million of unrealized appreciation.

Our principal investment objectives are to ensure funds are available to meet our insurance and reinsurance obligations and to maximize after-tax investment income while maintaining a high quality diversified investment portfolio. Considering these objectives, we view our investment portfolio as having two components: 1) the investments needed to satisfy outstanding liabilities and 2) investments funded by our shareholders' equity.

For the portion needed to satisfy outstanding liabilities, we invest in taxable and tax-preferenced fixed income securities with an average credit quality of Aa2, as rated by Moody's Investors Service, Inc. Our mix of taxable and tax-preferenced investments is adjusted periodically, consistent with our current and projected operating results, market conditions and our tax position. This fixed maturity portfolio is externally managed by an independent, professional investment manager using portfolio guidelines approved by us.

Over the past few years, we had reallocated our equity investment portfolio to include: 1) publicly traded equity securities and 2) private equity limited partnership investments. The objective of this portfolio diversification was to enhance the risk-adjusted total return of the investment portfolio by allocating a prudent portion of the portfolio to higher return asset classes. We had limited our allocation to these asset classes because of 1) the potential for volatility in their values and 2) the impact of these investments on regulatory and rating agency capital adequacy models. As a result of the dramatic slowdown in the global economy and the liquidity crisis affecting the financial markets, we significantly reduced our exposure to public equities during the fourth quarter of 2008. At March 31, 2009, the market or fair value of investments in equity and limited partnership securities approximated 14% of shareholders' equity, a decrease of 2 points from the 16% of shareholders' equity at December 31, 2008 and a 24 point decrease from 38% of shareholders' equity at December 31, 2007.

The tables below summarize the composition and characteristics of our investment portfolio as of the dates indicated.

|                                  | At March 31, 2009 |        | At December 31, 2008 |        |
|----------------------------------|-------------------|--------|----------------------|--------|
| Fixed maturities, market value   | \$ 11,196.0       | 82.3%  | \$ 10,759.6          | 78.5%  |
| Fixed maturities, fair value     | 47.4              | 0.3%   | 43.1                 | 0.3%   |
| Equity securities - market value | 14.4              | 0.1%   | 16.9                 | 0.1%   |
| Equity securities - fair value   | 109.8             | 0.8%   | 119.8                | 0.9%   |
| Short-term investments           | 1,173.1           | 8.6%   | 1,889.8              | 13.8%  |
| Other invested assets            | 593.3             | 4.5%   | 679.4                | 4.9%   |
| Cash                             | 467.2             | 3.4%   | 205.7                | 1.5%   |
| Total investments and cash       | \$ 13,601.1       | 100.0% | \$ 13,714.3          | 100.0% |

(Some amounts may not reconcile due to rounding.)

|   | At<br>March 31, 2009 | At<br>December 31, 2008 |
|---|----------------------|-------------------------|
| Fixed income portfolio duration (years) | 3.9                  | 4.1                     |
| Fixed income composite credit quality   | Aa2                  | Aa2                     |
| Imbedded end of period yield, pre-tax   | 4.2%                 | 4.5%                    |
| Imbedded end of period yield, after-tax | 3.7%                 | 4.0%                    |

The following table provides a comparison of our total return by asset class relative to broadly accepted industry benchmarks for the periods indicated.

|   | Three Months Ended<br>March 31, 2009 | Twelve Months Ended<br>December 31, 2008 |
|---|--------------------------------------|--|
| Fixed income portfolio total return         | 1.5%                                 | 0.3%                                     |
| Barclay's Capital - U.S. aggregate index    | 0.1%                                 | 5.2%                                     |
| Common equity portfolio total return        | -9.0%                                | -40.9%                                   |
| S&P 500 index                               | -11.0%                               | -37.0%                                   |
| Other invested asset portfolio total return | -11.5%                               | -7.4%                                    |

Reinsurance Receivables. Reinsurance receivables for both paid and unpaid losses totaled \$672.1 million at March 31, 2009 and \$657.2 million at December 31, 2008. At March 31, 2009, \$179.4 million, or 26.7%, was receivable from Transatlantic Reinsurance Company; \$100.0 million, or 14.9%, was receivable from Continental Insurance Company; \$54.4 million, or 8.1%, was receivable from Munich Reinsurance Company; \$42.2 million or 6.3% was receivable from C.V. Starr (Bermuda); \$37.8 million, or 5.6%, was receivable from Ace Property and Casualty Insurance Company and \$37.3 million, or 5.6%, was receivable from Berkley Insurance Company. The receivable from Continental Insurance Company is collateralized by a funds held arrangement under which we have retained the premiums earned by the retrocessionaire to secure obligations of the retrocessionaire, recorded them as a liability, credited interest on the balances at a

stated contractual rate and reduced the liability account as payments become due. In addition, \$227.6 million was receivable from Founders Insurance Company Limited, for which the Company has recorded a full provision for uncollectibility. No other retrocessionaire accounted for more than 5% of our receivables.

Loss and LAE Reserves. Gross loss and LAE reserves totaled \$8,775.5 million at March 31, 2009 and \$8,840.7 million at December 31, 2008.

The following tables summarize gross outstanding loss and LAE reserves by segment, classified by case reserves and IBNR reserves, for the periods indicated:

Gross Reserves By Segment

|                        | At March 31, 2009 |               |                |            |
|------------------------|-------------------|---------------|----------------|------------|
|                        | Case Reserves     | IBNR Reserves | Total Reserves | % of Total |
| (Dollars in millions)  |                   |               |                |            |
| U.S. Reinsurance       | \$ 1,415.5        | \$ 1,753.1    | \$ 3,168.6     | 36.1%      |
| U.S. Insurance         | 600.1             | 1,225.4       | 1,825.5        | 20.8%      |
| Specialty Underwriting | 256.6             | 163.1         | 419.8          | 4.8%       |
| International          | 656.4             | 462.1         | 1,118.4        | 12.7%      |
| Bermuda                | 635.2             | 839.3         | 1,474.5        | 16.8%      |
| Total excluding A&E    | 3,563.8           | 4,443.0       | 8,006.7        | 91.2%      |
| A&E                    | 431.5             | 337.3         | 768.8          | 8.8%       |
| Total including A&E    | \$ 3,995.3        | \$ 4,780.3    | \$ 8,775.5     | 100.0%     |

(Some amounts may not reconcile due to rounding.)

|                        | At December 31, 2008 |               |                |            |
|------------------------|----------------------|---------------|----------------|------------|
|                        | Case Reserves        | IBNR Reserves | Total Reserves | % of Total |
| (Dollars in millions)  |                      |               |                |            |
| U.S. Reinsurance       | \$ 1,384.7           | \$ 1,884.1    | \$ 3,268.8     | 37.0%      |
| U.S. Insurance         | 589.1                | 1,217.8       | 1,806.9        | 20.4%      |
| Specialty Underwriting | 260.8                | 163.4         | 424.2          | 4.8%       |
| International          | 664.3                | 427.3         | 1,091.6        | 12.3%      |
| Bermuda                | 634.9                | 827.4         | 1,462.3        | 16.5%      |
| Total excluding A&E    | 3,533.7              | 4,520.1       | 8,053.8        | 91.1%      |
| A&E                    | 434.5                | 352.3         | 786.8          | 8.9%       |
| Total including A&E    | \$ 3,968.2           | \$ 4,872.4    | \$ 8,840.7     | 100.0%     |

(Some amounts may not reconcile due to rounding.)

Changes in premiums earned and business mix, reserve re-estimations, catastrophe losses and changes in catastrophe loss reserves and claim settlement activity all impact loss and LAE reserves by segment and in total.

Our loss and LAE reserves represent our best estimate of our ultimate liability for unpaid claims. We continuously re-evaluate our reserves, including re-estimates of prior period reserves, taking into consideration all available information and, in particular, newly reported loss and claim experience. Changes in reserves resulting from such re-evaluations are reflected in incurred losses in the period when the re-evaluation is made. Our analytical methods and processes operate at multiple levels including individual contracts, groupings of like contracts, classes and lines of business, internal business units, segments, legal entities, and in the aggregate. In order to set appropriate reserves, we make qualitative and quantitative analyses and judgments at these various levels. Additionally, the attribution of reserves, changes in reserves and incurred losses among accident years requires qualitative and quantitative adjustments and allocations at these various levels. We utilize actuarial science, business expertise and management judgment in a manner intended to assure the accuracy and consistency of our reserving practices. Nevertheless, our reserves are estimates, which are subject to variation, which may be significant.

There can be no assurance that reserves for, and losses from, claim obligations will not increase in the future, possibly by a material amount. However, we believe that our existing reserves and reserving methodologies lessen the probability that any such increase would have a material adverse effect on our financial condition, results of operations or cash flows. In this context, we note that over the past 10 years, our calendar year operations have been affected by effects from prior period reserve re-estimates, ranging from a favorable \$26.4 million in 2005, representing 0.5% of the net prior period reserves for the year in which the adjustment was made, to an unfavorable \$249.4 million in 2004, representing 3.7% of the net prior period reserves for the year in which the adjustment was made.

Asbestos and Environmental Exposures. Asbestos and environmental (“A&E”) exposures represent a separate exposure group for monitoring and evaluating reserve adequacy. The following table summarizes incurred losses and outstanding loss reserves with respect to A&E reserves on both a gross and net of retrocessions basis for the periods indicated.

|                              | Three Months Ended |                 |
|------------------------------|--------------------|-----------------|
|                              | March 31,          |                 |
| (Dollars in millions)        | 2009               | 2008            |
| Gross basis:                 |                    |                 |
| Beginning of period reserves | \$ 786.8           | \$ 922.8        |
| Incurred losses              | -                  | -               |
| Paid losses                  | (18.0)             | (21.8)          |
| End of period reserves       | <u>\$ 768.8</u>    | <u>\$ 901.0</u> |
| Net basis:                   |                    |                 |
| Beginning of period reserves | \$ 749.1           | \$ 827.4        |
| Incurred losses              | -                  | -               |
| Paid losses                  | (17.2)             | 15.8            |
| End of period reserves       | <u>\$ 731.9</u>    | <u>\$ 843.2</u> |

(Some amounts may not reconcile due to rounding.)

At March 31, 2009, the gross reserves for A&E losses were comprised of \$153.0 million representing case reserves reported by ceding companies, \$151.2 million representing additional case reserves established by us on assumed reinsurance claims, \$127.3 million representing case reserves established by us on direct excess insurance claims, including Mt. McKinley, and \$337.3 million representing IBNR reserves.

With respect to asbestos only, at March 31, 2009, we had gross asbestos loss reserves of \$718.7 million, or 93.5%, of total A&E reserves, of which \$524.4 million was for assumed business and \$194.3 million was for direct business.

Industry analysts use the “survival ratio” to compare the A&E reserves among companies with such liabilities. The survival ratio is typically calculated by dividing a company’s current net reserves by the three year average of annual paid losses. Hence, the survival ratio equals the number of years that it would take to exhaust the current reserves if future loss payments were to continue at historical levels. Using this measurement, our net three year asbestos survival ratio was 2.7 years for direct business and 11.6 years for reinsurance business at March 31, 2009.

Shareholders’ Equity. Our shareholders’ equity increased to \$5,039.9 million at March 31, 2009 from \$4,960.4 million at December 31, 2008. This increase was the result of \$108.6 million in net income, unrealized appreciation on investments, net of tax, of \$46.9 million and \$3.3 million of share-based compensation transactions, partially offset by \$49.7 million of foreign currency translation adjustment and \$29.5 million of shareholder dividends.

## LIQUIDITY AND CAPITAL RESOURCES

Capital. Our business operations are in part dependent on our financial strength and financial strength ratings, and the market's perception of our financial strength, as measured by shareholders' equity, which was \$5,039.9 million at March 31, 2009 and \$4,960.4 million at December 31, 2008. On March 13, 2009, Everest Reinsurance Company and Everest National Insurance Company, wholly owned indirect subsidiaries of the Company, received notification of a one notch ratings downgrade by Standard & Poor's Ratings Services. We continue to possess significant financial flexibility and access to the debt and equity markets as a result of our perceived financial strength, as evidenced by the financial strength ratings as assigned by independent rating agencies. During the last six months of 2008 and into 2009, the capital markets have been illiquid in reaction to the deepening credit crisis which has led to bank and other financial institution failures and effective failures. Large credit spreads remain and the equity markets declined significantly during this period making access to the capital markets, for even highly rated companies, difficult and costly. Our capital position remains strong, commensurate with our financial ratings. We have ample liquidity to meet our financial obligations for the foreseeable future. Therefore, we have no foreseeable need to tap the capital markets in the near term.

From time to time, we have used open market share repurchases to adjust our capital position and enhance long term expected returns to our shareholders. On July 21, 2008, our existing authorization to purchase up to 5 million of our shares was amended to authorize the purchase of up to 10 million shares. As of March 31, 2009, we had repurchased 4.2 million shares under this authorization.

On December 17, 2008, we renewed our shelf registration statement on Form S-3ASR with the SEC, as a Well Known Seasoned Issuer. This shelf registration statement can be used by Group to register common shares, preferred shares, debt securities, warrants, share purchase contracts and share purchase units; by Holdings to register debt securities and by Everest Re Capital Trust III ("Capital Trust III") to register trust preferred securities.

Liquidity. Our principal investment objectives are to ensure funds are available to meet our insurance and reinsurance obligations and to maximize after-tax investment income while maintaining a high quality diversified investment portfolio. Considering these objectives, we view our investment portfolio as having two components; 1) the investments needed to satisfy outstanding liabilities and 2) investments funded by our shareholders' equity.

For the portion needed to satisfy outstanding liabilities, we invest in taxable and tax-preferenced fixed income securities with an average credit quality of Aa2, as rated by Moody's Investors Service, Inc. Our mix of taxable and tax-preferenced investments is adjusted periodically, consistent with our current and projected operating results, market conditions and our tax position. This fixed maturity securities portfolio is externally managed by an independent, professional investment manager using portfolio guidelines approved by us.

Over the past few years, we had reallocated our equity portfolio to include 1) publicly traded equity securities and 2) private equity limited partnership investments. The objective of this portfolio diversification was to enhance the risk-adjusted total return of the investment portfolio by allocating a prudent portion of the portfolio to higher return asset classes. We had limited our allocation to these asset classes because of 1) the potential for volatility in their values and 2) the impact of these investments on regulatory and rating agency capital adequacy models. As a result of the concomitant decline in equity values slowdown in the global economy and the liquidity crisis affecting the financial markets, we significantly reduced our exposure to public equities during the fourth quarter of 2008. At March 31, 2009, the market or fair value of investments in equity and limited partnership securities approximated 14% of shareholders' equity, a decrease of 24 points from 38% of shareholders' equity at December 31, 2007.

Our liquidity requirements are generally met from positive cash flow from operations. Positive cash flow results from reinsurance and insurance premiums being collected prior to disbursements for claims, which disbursements generally take place over an extended period after the collection of premiums, sometimes a period of many years. Collected premiums are generally invested, prior to their use in such disbursements,

and investment income provides additional funding for loss payments. Our net cash flows from operating activities were \$180.5 million and \$250.7 million for the three months ended March 31, 2009 and 2008, respectively. Additionally, these cash flows reflected net tax payments of \$27.1 million and \$33.2 million for the three months ended March 31, 2009 and 2008, respectively; net catastrophe loss payments of \$74.1 million and \$68.4 million for the three months ended March 31, 2009 and 2008, respectively; and net A&E payments of \$17.1 million and net A&E loss recoveries of \$15.8 million for the three months ended March 31, 2009 and 2008, respectively.

If disbursements for claims and benefits, policy acquisition costs and other operating expenses were to exceed premium inflows, cash flow from insurance operations would be negative. The effect on cash flow from insurance operations would be partially offset by cash flow from investment income. Additionally, cash inflows from investment maturities and dispositions, both short-term investments and longer term maturities are available to supplement other operating cash flows.

As the timing of payments for claims and benefits cannot be predicted with certainty, we maintain portfolios of long term invested assets with varying maturities, along with short-term investments that provide additional liquidity for payment of claims. At March 31, 2009 and December 31, 2008, we held cash and short-term investments of \$1,640.3 million and \$2,095.5 million, respectively. All of our short-term investments are readily marketable and can be converted to cash. In addition to these cash and short-term investments at March 31, 2009, we had \$601.2 million of available for sale fixed maturity securities maturing within one year or less, \$2,675.6 million maturing within one to five years and \$5,575.1 million maturing after five years. Our \$124.1 million of equity securities are comprised primarily of publicly traded securities that can be easily liquidated. We believe that these fixed maturity and equity securities, in conjunction with the short-term investments and positive cash flow from operations, provide ample sources of liquidity for the expected payment of losses in the near future. We do not anticipate selling securities or using available credit facilities to pay losses and LAE but have the ability to do so. Sales of securities might result in realized capital gains or losses and at March 31, 2009 we had \$106.1 million of net pre-tax unrealized depreciation, comprised of \$560.5 million of pre-tax unrealized depreciation and \$454.4 million of pre-tax unrealized appreciation.

Management expects annual positive cash flow from operations, which in general reflects the strength of overall pricing, to persist over the near term, absent any unusual catastrophe activity. In the intermediate and long term, our cash flow from operations will be impacted by the extent to which competitive pressures affect overall pricing in our markets and the extent to which our premium receipts are impacted by our strategy of emphasizing underwriting profitability over premium volume.

Effective July 27, 2007, Group, Bermuda Re and Everest International entered into a five year, \$850.0 million senior credit facility with a syndicate of lenders referred to as the "Group Credit Facility". Wachovia Bank, a subsidiary of Wells Fargo Corporation ("Wachovia Bank") is the administrative agent for the Group Credit Facility, which consists of two tranches. Tranche one provides up to \$350.0 million of unsecured revolving credit for liquidity and general corporate purposes, and for the issuance of unsecured standby letters of credit. The interest on the revolving loans shall, at the Company's option, be either (1) the Base Rate (as defined below) or (2) an adjusted London Interbank Offered Rate ("LIBOR") plus a margin. The Base Rate is the higher of (a) the prime commercial lending rate established by Wachovia Bank or (b) the Federal Funds Rate plus 0.5% per annum. The amount of margin and the fees payable for the Group Credit Facility depends on Group's senior unsecured debt rating. Tranche two exclusively provides up to \$500.0 million for the issuance of standby letters of credit on a collateralized basis.

The Group Credit Facility requires Group to maintain a debt to capital ratio of not greater than 0.35 to 1 and to maintain a minimum net worth. Minimum net worth is an amount equal to the sum of \$3,575.4 million plus 25% of consolidated net income for each of Group's fiscal quarters, for which statements are available ending on or after January 1, 2007 and for which consolidated net income is positive, plus 25% of any increase in consolidated net worth during such period attributable to the issuance of ordinary and preferred shares, which at March 31, 2009, was \$3,884.4 million. As of March 31, 2009, the Company was in compliance with all Group Credit Facility covenants.

At March 31, 2009, there were outstanding letters of credit under tranche one of \$5.7 million and \$339.6 million under tranche two of the Group Credit Facility. At December 31, 2008, there were no outstanding letters of credit under tranche one and \$411.9 million under tranche two of the Group Credit Facility.

Effective August 23, 2006, Holdings entered into a five year, \$150.0 million senior revolving credit facility with a syndicate of lenders referred to as the "Holdings Credit Facility". Citibank N.A. is the administrative agent for the Holdings Credit Facility. The Holdings Credit Facility may be used for liquidity and general corporate purposes. The Holdings Credit Facility provides for the borrowing of up to \$150.0 million with interest at a rate selected by Holdings equal to either, (1) the Base Rate (as defined below) or (2) a periodic fixed rate equal to the Eurodollar Rate plus an applicable margin. The Base Rate means a fluctuating interest rate per annum in effect from time to time to be equal to the higher of (a) the rate of interest publicly announced by Citibank as its prime rate or (b) 0.5% per annum above the Federal Funds Rate, in each case plus the applicable margin. The amount of margin and the fees payable for the Holdings Credit Facility depends upon Holdings' senior unsecured debt rating.

The Holdings Credit Facility requires Holdings to maintain a debt to capital ratio of not greater than 0.35 to 1 and Everest Re to maintain its statutory surplus at \$1.5 billion plus 25% of future aggregate net income and 25% of future aggregate capital contributions after December 31, 2005, which at March 31, 2009, was \$1,837.9 million. As of March 31, 2009, Holdings was in compliance with all Holdings Credit Facility covenants.

At March 31, 2009 and December 31, 2008, there were outstanding letters of credit of \$28.0 million under the Holdings Credit Facility.

Costs incurred in connection with the Group Credit Facility and the Holdings Credit Facility were \$0.3 million for the three months ended March 31, 2009 and 2008.

#### **Market Sensitive Instruments.**

The SEC's Financial Reporting Release #48 requires registrants to clarify and expand upon the existing financial statement disclosure requirements for derivative financial instruments, derivative commodity instruments and other financial instruments (collectively, "market sensitive instruments"). We do not generally enter into market sensitive instruments for trading purposes.

Our current investment strategy seeks to maximize after-tax income through a high quality, diversified, taxable and tax-preferenced fixed maturity portfolio, while maintaining an adequate level of liquidity. Our mix of taxable and tax-preferenced investments is adjusted periodically, consistent with our current and projected operating results, market conditions and our tax position. The fixed maturities in the investment portfolio are comprised of non-trading available for sale securities. Additionally, we have invested in equity securities. We have also written a small number of equity index put options.

The overall investment strategy considers the scope of present and anticipated Company operations. In particular, estimates of the financial impact resulting from non-investment asset and liability transactions, together with our capital structure and other factors, are used to develop a net liability analysis. This analysis includes estimated payout characteristics for which our investments provide liquidity. This analysis is considered in the development of specific investment strategies for asset allocation, duration and credit quality. The change in overall market sensitive risk exposure principally reflects the asset changes that took place during the period.

Interest Rate Risk. Our \$13.6 billion investment portfolio at March 31, 2009 is principally comprised of fixed maturity securities, which are generally subject to interest rate risk and some foreign currency exchange rate risk, and some equity securities, which are subject to price fluctuations and some foreign exchange rate risk. The impact of the foreign exchange risks on the investment portfolio is partially mitigated by changes in the dollar value of foreign currency denominated liabilities and their associated income statement impact.

Interest rate risk is the potential change in value of the fixed maturity portfolio, including short-term investments, from a change in market interest rates. In a declining interest rate environment, it includes

prepayment risk on the \$2,343.7 million of mortgage-backed securities in the \$11,243.4 million fixed maturity portfolio. Prepayment risk results from potential accelerated principal payments that shorten the average life and thus the expected yield of the security.

The table below displays the potential impact of market value fluctuations and after-tax unrealized appreciation on our fixed maturity portfolio (including \$1,173.1 million of short-term investments) for the period indicated based on upward and downward parallel and immediate 100 and 200 basis point shifts in interest rates. For legal entities with a U.S. dollar functional currency, this modeling was performed on each security individually. To generate appropriate price estimates on mortgage-backed securities, changes in prepayment expectations under different interest rate environments were taken into account. For legal entities with a non-U.S. dollar functional currency, the effective duration of the involved portfolio of securities was used as a proxy for the market value change under the various interest rate change scenarios.

| (Dollars in millions)                  | Impact of Interest Rate Shift in Basis Points |             |             |             |             |
|--|---|-------------|-------------|-------------|-------------|
|  | At March 31, 2009                             |             |             |             |             |
|  | -200  | -100        | 0           | 100         | 200         |
| Total Market/Fair Value                | \$ 13,451.9                                   | \$ 12,935.4 | \$ 12,416.4 | \$ 11,907.0 | \$ 11,406.0 |
| Market/Fair Value Change from Base (%) | 8.3 %   | 4.2 %       | 0.0 %       | -4.1 %      | -8.1 %      |
| Change in Unrealized Appreciation      |   |             |             |             |             |
| After-tax from Base (\$)               | \$ 772.6                                      | \$ 385.9    | \$ -        | \$ (380.2)  | \$ (761.9)  |

We had \$8,775.5 million and \$8,840.7 million of gross reserves for losses and LAE as of March 31, 2009 and December 31, 2008, respectively. These amounts are recorded at their nominal value, as opposed to present value, which would reflect a discount adjustment to reflect the time value of money. Since losses are paid out over a period of time, the present value of the reserves is less than the nominal value. As interest rates rise, the present value of the reserves decreases and, conversely, as interest rates decline, the present value increases. These movements are the opposite of the interest rate impacts on the fair value of investments. While the difference between present value and nominal value is not reflected in our financial statements, our financial results will include investment income over time from the investment portfolio until the claims are paid. Our loss and loss reserve obligations have an expected duration of approximately 4.1 years, which is reasonably consistent with our fixed income portfolio. If we were to discount our loss and LAE reserves, net of \$0.7 billion of reinsurance receivables on unpaid losses, the discount would be approximately \$1.5 billion resulting in a discounted reserve balance of approximately \$6.6 billion, representing approximately 53% of the market value of the fixed maturity investment portfolio funds.

**Equity Risk.** Equity risk is the potential change in fair and/or market value of the common stock and preferred stock portfolios arising from changing equity prices. Our equity investments consist of a diversified portfolio of individual securities and exchange traded and mutual funds, which invest principally in high quality common and preferred stocks that are traded on the major exchanges. The primary objective of the equity portfolio was to obtain greater total return relative to bonds over time through market appreciation and income.

The table below displays the impact on fair/market value and after-tax change in fair/market value of a 10% and 20% change in equity prices up and down for the period indicated.

| (Dollars in millions)                     | Impact of Percentage Change in Equity Fair/Market Values |          |          |          |          |
|---|--|----------|----------|----------|----------|
|   | At March 31, 2009  |          |          |          |          |
|   | -20%   | -10%     | 0%       | 10%      | 20%      |
| Fair/Market Value of the Equity Portfolio | \$ 99.3  | \$ 111.7 | \$ 124.1 | \$ 136.6 | \$ 149.0 |
| After-tax Change in Fair/Market Value     | (16.3)   | (8.2)    | -        | 8.2      | 16.3     |

**Foreign Currency Risk.** Foreign currency risk is the potential change in value, income and cash flow arising from adverse changes in foreign currency exchange rates. Each of our non-U.S./Bermuda (“foreign”) operations maintains capital in the currency of the country of its geographic location consistent with local regulatory guidelines. Generally, we prefer to maintain the capital of our operations in U.S. dollar assets,

although this varies by regulatory jurisdiction in accordance with market needs. Each foreign operation may conduct business in its local currency, as well as the currency of other countries in which it operates. The primary foreign currency exposures for these foreign operations are the Canadian Dollar, the British Pound Sterling and the Euro. We mitigate foreign exchange exposure by generally matching the currency and duration of our assets to our corresponding operating liabilities. In accordance with FAS No. 52, "Foreign Currency Translation", we translate the assets, liabilities and income of non-U.S. dollar functional currency legal entities to the U.S. dollar. This translation amount is reported as a component of other comprehensive income. As of March 31, 2009 there has been no material change in exposure to foreign exchange rates as compared to December 31, 2008.

Equity Index Put Options. Although not considered material in the context of our aggregate exposure to market sensitive instruments, we have issued six equity index put options based on the S&P 500 index and one equity index put option based on the FTSE 100 index, that are market sensitive and sufficiently unique to warrant supplemental disclosure.

We sold six equity index put options based on the S&P 500 index for total consideration, net of commissions, of \$22.5 million. These contracts each have a single exercise date, with maturities ranging from 12 to 30 years and strike prices ranging from 1,141.21 to \$1,540.63. No amounts will be payable under these contracts if the S&P 500 index is at or above the strike prices on the exercise dates, which fall between June 2017 and March 2031. If the S&P 500 index is lower than the strike price on the applicable exercise date, the amount due will vary proportionately with the percentage by which the index is below the strike price. Based on historical index volatilities and trends and the March 31, 2009 index value, we estimate the probability for each contract of the S&P 500 index falling below the strike price on the exercise date to be less than 66%. The theoretical maximum payouts under the contracts would occur if on each of the exercise dates the S&P 500 index value were zero. At March 31, 2009, the present value of these theoretical maximum payouts using a 6% discount factor was \$243.1 million.

We sold one equity index put option based on the FTSE 100 index for total consideration, net of commissions, of \$6.7 million. This contract has an exercise date of July 2020 and a strike price of £5,989.75. No amount will be payable under this contract if the FTSE 100 index is at or above the strike price on the exercise date. If the FTSE 100 index is lower than the strike price on the exercise date, the amount due will vary proportionately with the percentage by which the index is below the strike price. Based on historical index volatilities and trends and the March 31, 2009 index value, we estimate the probability that the FTSE 100 index contract will fall below the strike price on the exercise date to be less than 65%. The theoretical maximum payout under the contract would occur if on the exercise date the FTSE 100 index value was zero. At March 31, 2009, the present value of the theoretical maximum payout using a 6% discount factor was \$23.8 million.

Because the equity index put options meet the definition of a derivative under FAS 133, we report the fair value of these instruments in our consolidated balance sheets as a liability and record any changes to fair value in our consolidated statements of operations and comprehensive income as net derivative expense or income. Our financial statements reflect fair values for our obligations on these equity put options at March 31, 2009 and December 31, 2008 of \$80.3 million and \$60.6 million, respectively; however, we do not believe that the ultimate settlement of these transactions is likely to require a payment that would exceed the initial consideration received or any payment at all.

As there is no active market for these instruments, the determination of their fair value is based on an industry accepted option pricing model, which requires estimates and assumptions, including those regarding volatility and expected rates of return.

The table below displays the impact of potential movements in interest rates and the equity indices, which are the principal factors affecting fair value of these instruments, looking forward from the fair value for the period indicated. As these are estimates, there can be no assurance regarding future market performance. The asymmetrical results of the interest rate and S&P 500 and FTSE 100 indices shift reflect that the liability cannot fall below zero whereas it can increase to its theoretical maximum.

|  |  | Equity Indices Put Options Obligation – Sensitivity Analysis |            |         |          |          |
|--|--|--|------------|---------|----------|----------|
|  |  | At March 31, 2009  |            |         |          |          |
| (Dollars in millions)                              |  | -200   | -100       | 0       | 100      | 200      |
| Interest Rate Shift in Basis Points:               |  |  |            |         |          |          |
| Total Fair Value                                   |  | \$ 134.4   | \$ 104.1   | \$ 80.3 | \$ 61.5  | \$ 46.9  |
| Fair Value Change from Base (%)                    |  | -67.5 %  | -29.8 %    | 0.0 %   | 23.3 %   | 41.5 %   |
| Equity Indices Shift in Points (S&P 500/FTSE 100): |  | -500/-2000   | -250/-1000 | 0       | 250/1000 | 500/2000 |
| Total Fair Value                                   |  | \$ 173.9   | \$ 116.7   | \$ 80.3 | \$ 56.8  | \$ 41.2  |
| Fair Value Change from Base (%)                    |  | -116.7 %   | -45.4 %    | 0.0 %   | 29.3 %   | 48.7 %   |
| Combined Interest Rate /                           |  | -200/  | -100/      |         | 100/     | 200/     |
| Equity Indices Shift (S&P 500/FTSE 100):           |  | -500/-2000   | -250/-1000 | 0/0     | 250/1000 | 500/2000 |
| Total Fair Value                                   |  | \$ 251.8   | \$ 146.2   | \$ 80.3 | \$ 42.2  | \$ 21.4  |
| Fair Value Change from Base (%)                    |  | -213.7 %   | -82.2 %    | 0.0 %   | 47.4 %   | 73.4 %   |

#### Safe Harbor Disclosure.

This report contains forward-looking statements within the meaning of the U.S. federal securities laws. We intend these forward-looking statements to be covered by the safe harbor provisions for forward-looking statements in the federal securities laws. In some cases, these statements can be identified by the use of forward-looking words such as “may”, “will”, “should”, “could”, “anticipate”, “estimate”, “expect”, “plan”, “believe”, “predict”, “potential” and “intend”. Forward-looking statements contained in this report include information regarding our reserves for losses and LAE, the adequacy of our provision for uncollectible balances, estimates of our catastrophe exposure, the effects of catastrophic events on our financial statements, the ability of Everest Re, Holdings and Bermuda Re to pay dividends and the settlement costs of our specialized equity put options. Forward-looking statements only reflect our expectations and are not guarantees of performance. These statements involve risks, uncertainties and assumptions. Actual events or results may differ materially from our expectations. Important factors that could cause our actual events or results to be materially different from our expectations include the uncertainties that surround the impact on our financial statements and liquidity resulting from changes in the global economy and credit markets, the estimating of reserves for losses and LAE, those discussed in Note 8 of Notes to Consolidated Financial Statements (unaudited) included in this report and the risks described under the caption “Risk Factors” in our most recently filed Annual Report on Form 10-K, PART I, ITEM 1A. We undertake no obligation to update or revise publicly any forward-looking statements, whether as a result of new information, future events or otherwise.

### ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

**Market Risk Instruments.** See “Liquidity and Capital Resources - Market Sensitive Instruments” in PART I – ITEM 2.

#### **ITEM 4. CONTROLS AND PROCEDURES**

As of the end of the period covered by this report, our management carried out an evaluation, with the participation of the Chief Executive Officer and Principal Accounting Officer, of the effectiveness of our disclosure controls and procedures (as defined in Rule 13a-15(e) under the Securities Exchange Act of 1934 (the “Exchange Act”). Based on their evaluation, the Chief Executive Officer and Principal Accounting Officer concluded that our disclosure controls and procedures are effective to ensure that information required to be disclosed by us in the reports that it files or submits under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in Securities and Exchange Commission’s rules and forms. Our management, with the participation of the Chief Executive Officer and Principal Accounting Officer, also conducted an evaluation of our internal control over financial reporting to determine whether any changes occurred during the quarter covered by this report that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting. Based on that evaluation, there has been no such change during the quarter covered by this report.

#### **PART II**

#### **ITEM 1. LEGAL PROCEEDINGS**

In the ordinary course of business, we are involved in lawsuits, arbitrations and other formal and informal dispute resolution procedures, the outcomes of which will determine our rights and obligations under insurance, reinsurance and other contractual agreements. In some disputes, we seek to enforce our rights under an agreement or to collect funds owing to us. In other matters, we are resisting attempts by others to collect funds or enforce alleged rights. These disputes arise from time to time and are ultimately resolved through both informal and formal means, including negotiated resolution, arbitration and litigation. In all such matters, we believe that our positions are legally and commercially reasonable. While the final outcome of these matters cannot be predicted with certainty, we do not believe that any of these matters, when finally resolved, will have a material adverse effect on our financial position or liquidity. However, an adverse resolution of one or more of these items in any one quarter or fiscal year could have a material adverse effect on our results of operations in that period.

#### **ITEM 1A. RISK FACTORS**

No material changes.

**ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS  
ISSUER PURCHASES OF EQUITY SECURITIES**

| Issuer Purchases of Equity Securities |   |  |   |  |
|---------------------------------------|---|--|---|--|
|                                       | (a)   | (b)                                    | (c)   | (d)  |
| Period                                | Total Number of Shares (or Units) Purchased <sup>(1)(2)</sup> | Average Price Paid per Share (or Unit) | Total Number of Shares (or Units) Purchased as Part of Publicly Announced Plans or Programs | Maximum Number (or Approximate Dollar Value) of Shares (or Units) that May Yet Be Purchased Under the Plans or Programs <sup>(3)</sup> |
| January 1 - 31, 2009                  | 0   | \$ -                                   | 0   | 5,833,830  |
| February 1 - 28, 2009                 | 9,471   | \$ 68.4056                             | 0   | 5,833,830  |
| March 1 - 31, 2009                    | 0   | \$ -                                   | 0   | 5,833,830  |
| Total                                 | 9,471   | \$ 68.4056                             | 0   | 5,833,830  |

(1) Included were 2,146 shares used to pay for option grant price on option exercise.

(2) Included 7,325 shares withheld as payment for taxes on restricted shares that became unrestricted in the year.

(3) On September 21, 2004, the Company's board of directors approved an amended share repurchase program authorizing the Company and/or its subsidiary Holdings to purchase up to an aggregate of 5,000,000 of the Company's common shares through open market transactions, privately negotiated transactions or both. On July 21, 2008, the Company's executive committee of the board of directors approved an amendment to the September 21, 2004 share repurchase program authorizing the Company and/or its subsidiary Holdings to purchase up to an aggregate of 10,000,000 of the Company's common shares (recognizing that the number of shares authorized for repurchase has been reduced by those shares that have already been purchased) in open market transactions, privately negotiated transactions or both.

**ITEM 3. DEFAULTS UPON SENIOR SECURITIES**

None.

**ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS**

None.

**ITEM 5. OTHER INFORMATION**

None.

**ITEM 6. EXHIBITS**

Exhibit Index:

| <u>Exhibit No.</u> | <u>Description</u>  |
|--------------------|---|
| 31.1               | Section 302 Certification of Joseph V. Taranto                        |
| 31.2               | Section 302 Certification of Keith T. Shoemaker                       |
| 32.1               | Section 906 Certification of Joseph V. Taranto and Keith T. Shoemaker |

Everest Re Group, Ltd.

Signatures

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

Everest Re Group, Ltd.  
(Registrant)

/S/ KEITH T. SHOEMAKER  
Keith T. Shoemaker  
Vice President and Comptroller,  
Principal Accounting Officer

(Duly Authorized Officer and Principal Financial Officer)

Dated: May 11, 2009